Standard Chartered

Standard Chartered Bank Kenya Limited Annual Report 2015

Driving investment, trade and the creation of wealth in Kenya

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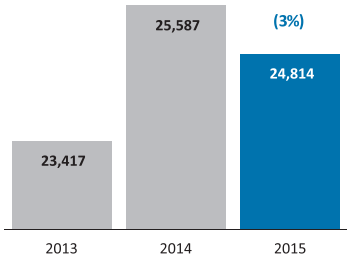
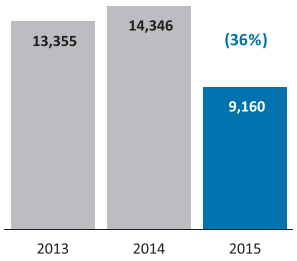
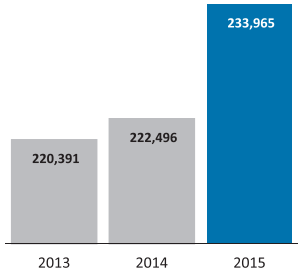
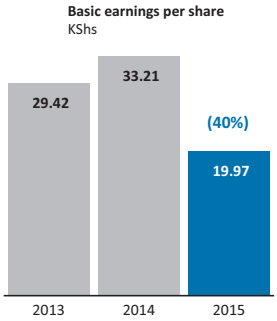
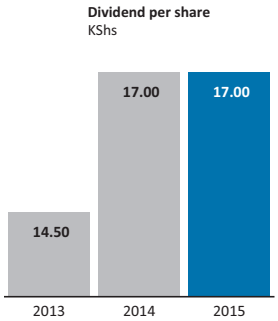
Performance Highlights
Strong foundations

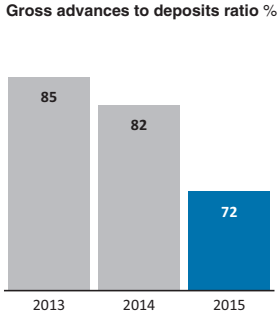


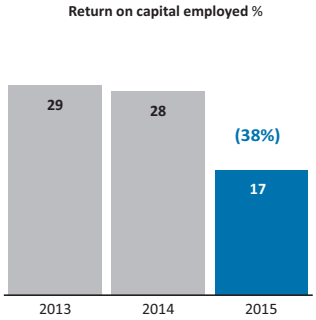


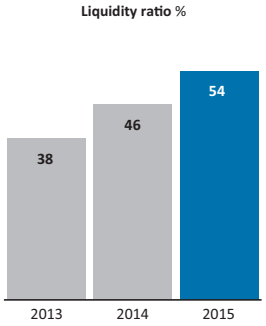


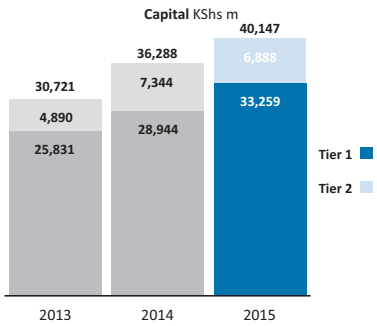


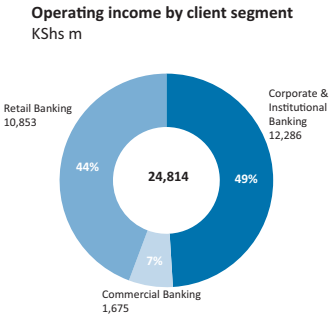


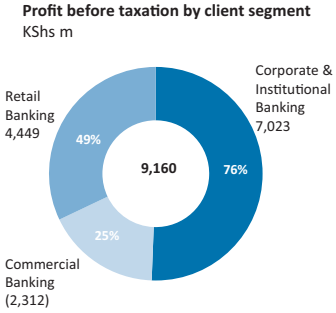


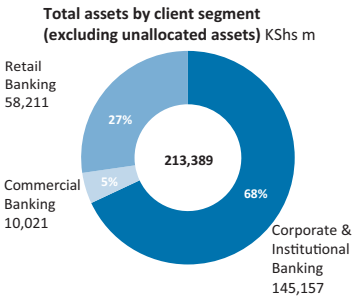












Non-financial Highlights

Employees
1,881
2014: 2,048 2013: 1,850

Branches
39
2014: 37 2013: 37

ATMs
98
2014: 95 2013: 98

Five Year Summary

Income Statement	2015 KShs '000	2014 KShs '000	2013 KShs '000	2012 KShs '000	2011 KShs '000
Operating income	24,814,354	25,587,016	23,417,444	20,671,436	15,913,511
Impairment losses on loans and advances	(4,591,647)	(1,047,430)	(783,050)	(716,650)	(412,739)
Operating expenses	(11,062,775)	(10,193,605)	(9,279,429)	(8,398,595)	(7,245,637)
Profit before taxation	9,159,932	**14,345,981**	**13,354,965**	**11,556,191**	**8,255,135**
Taxation	(2,817,505)	(3,909,801)	(4,092,044)	(3,486,658)	(2,418,314)
Profit after taxation	6,342,427	**10,436,180**	**9,262,921**	**8,069,533**	**5,836,821**
Information per ordinary share					
Basic earnings per share (EPS) (2011 Restated)	19.97	**33.21**	**29.42**	**26.60**	**19.28**
Dividend per share on each ordinary share (DPS)	17.00	**17.00**	**14.50**	**12.50**	**11.00**
Statement of Financial Position					
Loans and advances to customers (gross)	123,409,820	126,275,274	131,965,961	114,534,987	97,417,343
Impairment losses on loans and advances	(8,284,393)	(3,526,041)	(2,293,957)	(1,840,464)	(1,319,520)
Government securities	73,126,068	58,215,860	55,642,528	45,320,968	24,584,908
Other assets	45,713,952	41,530,731	35,076,648	37,337,265	43,363,893
Total assets	233,965,447	**222,495,824**	**220,391,180**	**195,352,756**	**164,046,624**
Deposits from customers	172,036,056	154,066,931	154,720,011	140,524,846	122,323,049
Other liabilities	20,677,606	27,770,719	29,464,768	24,075,096	21,029,119
Total liabilities	192,713,662	**181,837,650**	**184,184,779**	**164,599,942**	**143,352,168**
Net assets	41,251,785	**40,658,174**	**36,206,401**	**30,752,814**	**20,694,456**
Shareholders' funds	41,251,785	**40,658,174**	**36,206,401**	**30,752,814**	**20,694,456**
Ratios					
Cost income ratio	45%	40%	40%	41%	46%
Return on capital employed	17%	28%	29%	30%	33%
Impairment charge/gross loans and advances	4%	1%	1%	1%	1%
Gross loans and advances to deposits ratio	72%	82%	85%	82%	80%
Gross non performing loans and advances/total gross loans and advances	12%	9%	3%	2%	1%
Core capital/total deposit liabilities	19%	19%	17%	15%	12%
Core capital/total risk weighted assets	18%	16%	17%	16%	12%
Total capital/total risk weighted assets	21%	20%	21%	18%	14%

Chair to the Board's Statement

> "The Board is confident in the Company's compelling opportunities and the changes we have made will reposition the Company for the future."

2015 was indeed a very challenging year for Standard Chartered Bank as a Group. Our financial results are a reflection of a volatile macro-economic environment as well as the effects of deliberate management actions.

In November 2015, the Standard Chartered Bank Group ("SCB Group") announced a refreshed strategy which prioritises returns and allocation of capital and investment in areas in which we have long term competitive advantage. Our aim is to build on foundations of a strong balance sheet, cost efficiencies as well as a vibrant and ethical organisational culture.

In Kenya, in a bid to turn around the performance trajectory of the Company, we refreshed our strategy focused on growing the balance sheet and building a sustained momentum into 2016 and one that is responsive to local conditions.

Operating Environment

Global economic growth remained subdued in 2015, slowing to 2.4 per cent. A slump in commodity prices resulted in the weakening of strong economies, notably China and created a harsh operating environment.

The banking sector's fortunes are tied to the economic environment both domestically and globally. The global sentiment impacted Kenya's banking sector through the depreciation of the Kenya shilling (KShs) against the US dollar (USD) due to portfolio outflows out of the Nairobi Securities Exchange (NSE) predominantly by foreign investors. This led to a spike in interest rates in October 2015. The aggressive spike in interest rates increased the attractiveness of KShs assets and led to an inflow of foreign currency that strengthened the KShs against the USD. Towards the close of the year, the foreign exchange market remained stable anchored by strong Diaspora remittances, and a narrowing current account deficit due to a lower oil import bill coupled with improved exports.

The Central Bank of Kenya (CBK) maintained tight monetary policies in the second half of the year. The Central Bank Rate increased to 11.5 per cent from 10 per cent in July 2015, and similarly, the Kenya Banks' Reference Rate increased to 9.87 per cent from 8.54 per cent in the same month. Both rates have since remained unchanged. This has mitigated internal and external shocks and led to a relative stability of domestic prices and of the exchange rate. Kenya's financial sector continues to demonstrate strong growth as a result of improvements in the information and communication technologies, macroeconomic stability and domestic expansion due to the devolved level of government and regional expansion to new frontiers.

Financial Results

In 2015, Standard Chartered's results reflect a challenging operating environment as well as the effects of the restructuring from the refreshed SCB Group strategy.

Highlights:

- Profit before taxation declined 36 per cent to KShs 9.2 billion (2014: KShs 14.3 billion);
- Total revenue decreased by 3 per cent to KShs 24.8 billion (2014: KShs 25.6 billion). The increase in interest income and fee & commission income was offset by a drop in other income;
- Net interest income increased to KShs 17.6 billion (2014: KShs 17.3 billion).

- Non-interest income decreased by 13 per cent to KShs 7.2 billion (2014: KShs 8.3 billion) due to a one-off property sale in 2014. Excluding the one-off in 2014, non interest income was up 7 per cent.

- Net bad debt charge increased from KShs 1.0 billion to KShs 4.6 billion. The portfolio has been reviewed extensively and we continue to have a proactive approach to risk management;

- Total operating costs grew by 9 per cent to KShs 11.1 billion (2014: KShs 10.2 billion) as we continued to invest in new business capabilities, business reorganisation and inflationary pressures;

- Loans and advances declined by 6 per cent to KShs 115.1 billion (2014: KShs 122.7 billion) while customer deposits increased by 12 per cent to KShs 172.0 billion (2014: KShs 154.1 billion);

- Investment in government securities increased from KShs 58.2 billion to KShs 73.1 billion on the back of increased liquidity; and

- Earnings per share was KShs 19.97 per ordinary share (2014: KShs 33.21 per ordinary share).

Dividend

The Board recognises the importance of dividends to shareholders, and believes in balancing returns with investment in the business. The Board is recommending a final dividend for the year of KShs 12.50 for every ordinary share of KShs 5.00. This is in addition to the interim dividend paid in January 2016 of KShs 4.50 for every ordinary share of KShs 5.00 which will bring the total dividend to KShs 17.00. This compares to a total dividend of KShs 17.00 per ordinary share paid in 2014. In addition, the Board is recommending issuance of bonus shares in the proportion of 1 ordinary share for every 9 ordinary shares held.

The dividend payout gives us the right balance between bolstering our capital base to enable us invest in our business to support future growth, continue to deliver attractive returns to our investors as well as ensuring we preserve strong capital ratios.

Corporate Governance

The Board upholds high standards of corporate governance which we believe is key to delivering sustainable shareholder value and the Company's long term success.

To achieve this, the Board provided leadership through oversight of the Company strategy execution, internal controls, risk management and people management. In addition, the Board spearheaded the Company's restructuring process through the review of the new structure and approving the creation of new internal committees to support the new structure. The Board also provided guidance in the process of staff recommitment to the Code of Conduct to ensure adherence by all employees in their dealings with one another, customers, suppliers and other stakeholders.

Our commitment to practising high standards of corporate governance and contributing to the promotion of an environment where such are upheld and practiced, saw the Company recognised in various industry awards:

- Overall winner in the Banks category for IFRS reporting in the 2015 Excellence in Financial Reporting (FiRe) Awards which are jointly promoted by the Institute of Certified Public Accountants in Kenya, the Capital Markets Authority and the Nairobi Securities Exchange; and

- 2nd Runners up in the Environments & Social Reporting category in the 2015 FiRe Awards.

We have continued to strengthen and enhance the shape and dynamics of the Board. In August 2015, Mr. Robin Bairstow, an Executive Director, resigned from the Board to pursue other interests and Mr. Benjamin Dabrah joined the Board as a non-Executive Director.

Community Partnership

We have a sustainable approach to our business, which is reflected in our brand promise, 'Here for good'. Sustainability is integrated into how we do business. It guides everything we do, from the services we provide to our clients, to the way we run our Company and support the local communities in which we live and work. Our

Chair to the Board Statement (Continued)

approach is centered on three pillars; contributing to sustainable economic growth, being a responsible company and investing in communities.

Contributing to sustainable economic growth is about how we support our clients through our core business of banking. We seek to maximise our contribution to sustainable development by providing financing to businesses in key sectors that enable economic growth and job creation as well as extending access to finance to individuals through our Retail Banking operations and to our microfinance institution clients who provide services to individuals who lack access to banking services.

Being a responsible company is about our commitment to not only the business activity we finance but also about how we run our business. This includes governance, financial crime prevention, people and values, environmental footprint and suppliers. We manage operations to deliver long term value to our stakeholders.

Despite the challenging operating environment, we continue to invest in communities and work with them to promote social and economic development as a reflection of our brand promise, 'Here for good'. Our community investment activities focus on health and education, with youth as a target demographic. Employee volunteering is integral to our approach; we encourage staff to volunteer their time and skills to impact communities. We are engaged in three community initiatives; Goal - a girl empowerment programme launched in 2015, 'Seeing is Believing', a programme aimed at eradication of avoidable blindness, and Financial Education for youth and micro businesses which aim at building financial capability of youth and micro entrepreneurs.

Summary

As the global economy is still experiencing a myriad of challenges, we shall continue to reduce our sensitivity to adverse trends, while we support our clients and invest in improving our resources and processes.

Kenya's economy is expected to continue performing well in 2016 buoyed by low oil prices and investment in infrastructure. The market is promising with opportunities for us to seize. We have positioned ourselves well to capitalise on this development. We are going to play to our strengths; we have the requisite knowledge, expertise, experience, and an unrivalled international network to spur us to success.

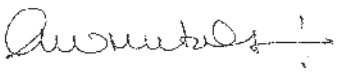
The substantial changes we have made in the business address the underlying challenges that have impacted our earnings. I am happy to note that the changes have now been largely embedded in our business and I am positive that these changes will help us meet our aspirations and serve our clients better.

One of our key differentiators in the market has always been the pool of talent we have at Standard Chartered. I would like to salute our staff for remaining steadfast in executing our strategy notwithstanding the challenges that we experienced in the working environment.

The Board acknowledges the importance of sound governance structures in guiding the way we do business. To this end, we relentlessly promote the right culture, values and behaviour at all levels of the Company. Through the requisite audit and risk functions, we shall continue to ensure Standard Chartered is compliant with both the letter and spirit of our governance framework.

Finally, I would like to thank our clients and shareholders for their continued support and also the Board and our staff for their dedication to Standard Chartered through the year 2015.

Anne Mutahi
Chair to the Board



23 March 2016

Taarifa ya Mwenyekiti

> "Bodi inauhakika kwamba Kampuni itazidi kunawili kutokana na mabadiliko ambayo tumefanya na nafasi murwa zinazoibuka."

Mwaka 2015 umekuwa mwaka wenye changamoto nyingi kwa Kampuni ya Standard Chartered Bank kwa jumla. Matokeo yetu ya kifedha ni zao la hali tata ya mazingira ya kiuchumi wa nchi pamoja na athari za hatua za kimakusudi vya kiusimamizi.

Mnamo mwezi wa Novemba 2015, shirika hili lilitangaza mikakati mipya ambayo inatoa kipaumbele kwa faida na uelekezaji wa mtaji na uwekezaji katika nyanja ambazo tuna nafasi bora ya kuibuka kifua mbele.

Lengo letu kuu ni kujenga juu ya misingi ya waraka mizania imara, kudhibiti gharama, na pia kuzingatia utamaduni wa kampuni ulio mchangamfu na wenye maadili faafu.

Nchini Kenya, ilikubadilisha mkondo wa mafanikio ya Benki hii na kuufanya ufae zaidi, tulibadilisha upya mkakati wetu na kuegemea zaidi katika kuikuza waraka mizania na kuimarisha mwendo-kasi endelevu kuingia katika mwaka wa 2016 na pia kujali mwitiko wa hali zetu halisi mashinani.

Mazingira ya kiutendakazi

Ukuaji wa kiuchumi ulimwenguni ulibakia katika viwango vya chini katika mwaka 2015, na hata kudidimia hadi kufikia asilimia 2.4. Mfumko wa bei za bidhaa ulisababisha kudhoofika kwa chumi thabiti kama Uchina na kupelekea mazingira mabaya ya kufanyia kazi.

Natija za sekta ya benki zinahusishwa na mazingira ya kiuchumi ya kitaifa na ya kimataifa. Hali hii ya kimataifa ilikuwa na athari kwa sekta ya benki nchini Kenya kupitia kwa kudhoofika kwa thamani ya Shilingi ya Kenya (Sh) dhidi ya Dollar ya Marekani (USD) kwa sababu kuuza hisa kutoka kwa soko la Ubadilishanaji Hisa la Nairobi (NSE) hasa za wawekezaji wa kigeni. Hili lilisababisha kupanda kwa riba katika mwezi wa Oktoba 2015. Huku kupanda kwa riba kwa ghafla kuliongezea hamu ya wawekezaji kuvutiwa na hazina zilizo katika sarafu za Shilingi ya Kenya (Sh) na hivyo kusababisha kufurika kwa sarafu za kigeni ambazo ziliimarisha Shilingi dhidi ya Dola ya Marekani. Kufikia mwisho wa mwaka, soko la kubadilisha pesa za kigeni lilibakia thabiti likiimarishwa na hela nyingi zilizoendelea kuingia nchini kutoka kwa Wakenya walio ng'ambo, na pia kufifisha upungufu wa hela za wateja kwenye benki kutokana na gharama ya chini ya uagizaji mafuta kutoka nje pamoja na mauzo ya nje yaliyoboreshwa.

Benki Kuu ya Kenya ilishikilia sera dhabiti za kifedha katika nusu ya pili ya mwaka. Viwango vya Riba vya Benki Kuu ya Kenya viliongezeka hadi kufikia asilimia 11.5 kutokakwa asilimia 10 mnamo Julai 2015, na vivyo hivyo, viwango vya riba vya benki nyingine vikaongezeka kutoka asilimia 9.87 kutoka asilimia 8.54 kwa mwezi huo huo. Viwango hivyo vya riba bado havijabadilika hadi wa leo. Hili limepunguza athari za ndani na za nje na kusababisha kiwango fulani cha uimarikaji wa bei za humu nchini na viwango vya ubadilishanaji wa hela za kigeni.

Sekta ya fedha nchini Kenya inaendelea kuonyesha ukuaji imara kutokana na uboreshaji wa teknolojia za Habari na mawasiliano, uimarikaji wa uchumi kwa jumla na upanukaji wa hali za kiuchumi wa nyanjani kutoka na viwango vya serikali za kaunti na upanukaji wa uchumi wa kanda nzima kwa njia mbali mbali.

Matokeo ya Kifedha

Mnamo 2015, matokeo ya Benki ya Standard Chartered yanaakisi hali ya mazingira yenye changamoto pamoja na athari za kujaribu kuingiana na mikakati mipya ya Benki ya Standard Chartered.

Muhtasari wa Matokeo hayo:

- Faida kabla ya ushuru ilishuka kwa asilimia 36 kufikia Sh 9.2 bilioni (2014: Sh 14.3 bilioni):

Taarifa ya Mwenyekiti (Yaendelea)

- Mapato ya jumla yalipungua kwa asilimia 3 na kufikia Sh 24.8 bilioni (2014: Sh 25.6 bilioni). Ongezeko la mapato kutoka kwa riba na ada na mapato ya mgao yalimezwa na kuporomoka kwa mapato mengineyo;

- Mapato kamili yatokanayo na riba yaliongezeka kufikia Sh 17.6 bilioni (2014: Sh 17.3 bilioni);

- Mapato yasiyotokana na riba yalipungua kwa asilimia 13 na kufikia Sh 7.2 bilioni (2014: Sh 8.3 bilioni) kutokana na mauzo ya mkupuo mmoja katika mwaka 2014. Kando na mauzo hayo ya mara moja mnamo 2014, mapato yasiyotokana na riba yalikuwa juu kwa asilimia 7;

- Gharama kamili ya mikopo isiyolipika iliongezeka kutoka Sh 1bilioni hadi Sh 4.6 bilioni. Hali hiyo imechunguzwa upya kwa makini huku tukiendelea kuwa na mwelekeo kuchukua hatua kimbele katika kupunguza hatari;

- Gharama ya jumla ya kuendesha shughuli za kampuni ilipanda kutoka asilimia 9 na kufikia Sh 11.1 bilioni (2014 Sh 10.2 bilioni) huku tukiendelea kuwekeza katika uwezo wa biashara mpya kupanga upya biashara na shinikizo za hali mbaya za kiuchumi duniani;

- Mikopo na arbuni ilipungua kwa asilimia 6 na kufikia Sh 115.1 bilioni (2014 Sh 122.7 bilioni) huku hazina zilizowekwa na wateja zikaongezeka kwa asilimia 12 na kufikia 172.0 bilioni (2014 Sh 154.1 bilioni);

- Uwekezaji wa hisa za serikali uliongezeka kutoka Sh 58.2 bilioni kufikia Sh 73.1 bilioni katika muktadha wa nyongeza za pesa taslimu; na

- Mapato kwa kila hisa yalikuwa Sh 19.97 kwa hisa moja ya kawaida (2014: 33.21 kwa hisa moja ya kawaida) Gawio.

Bodi inatambua umuhimu wa gawio kwa wenyehisa, na inaamini katika kusawazisha mapato na uwekezaji katika biashara. Bodi inapendekeza malipo ya gawio kwa mwaka huu yawe ni Sh 12.50 kwa kila hisa ya kawaida ya thamani ya Sh 5.00. Hili linalinganishwa na gawio lajumla la Sh 17.00 kwa hisa ya kawaida iliyolipwa katika mwaka wa 2014. Isitoshe, Bodi inapendekeza kutolewa kwa hisa za gawio katika mgao wa hisa moja ya kawaida kwa hisa tisa za kawaida ulizonazo.

Malipo haya ya gawio yanatuweka sawa kati ya kuimarisha misingi ya mtaji wetu na kutuwezesha sisi kuwekeza katika biashara ili kusaidia ukuaji wa siku za usoni, kuendelea kuwasilisha mapato yanayopendeza kwa wawekezaji wetu na kuhakikisha ya kuwa tunahifadhi viwango imara vya mtaji.

Usimamizi wa Kampuni

Bodi inaonyesha viwango vya juu vya usimamizi wa kampuni ambavyo tunaamini ndivyo nguzo kuu katika kuwafikishia wenyehisa thamani endelevu na pia kwa maendeleo ya Benki muda mrefu.

Ili kuyafikia haya, Bodi ulitoa uongozi kupitia kwa usimamizi usimamiaji wa utekelezaji wa mikakati ya Kampuni, udhibiti wa ndani kwa ndani, upunguzaji wa hatari na usimamizi wa wafanyakazi. Zaidi ya hayo, Bodi iliongoza mchakato wa kuboresha mifumo ya Kampuni kwa kuangalia upya muundo mpya na kuthibitisha uundwaji wa kamati mpya za usimamizi wa ndani ili kusaidia mfumo mpya. Bodi pia ilitoa mwelekeo kwa mchakato wa wafanyakazi kujitolea upya kuzingatia Mwongozo wa Maadili ili kuhakikisha kuwa wafanyakazi wote wataufuata katika shughuli zao zinazihusiana nao wenyewe kwa wenyewe, na wateja, na wagavi na wadau wengine.

Kujitolea kwetu katika kuendesha viwango vya juu vya usimamizi wa kampuni na kuchangia katika kuimarisha mazingira ambamo maadili haya hutuzwa na kuzingatiwa, kulifanya Benki hii itambulikane katika tuzo mbali mbali za sekta hii.

- Mshindi mkuu katika kitengo cha Benki cha kutoa report za IFRS mnamo 2015 katika Tuzo za Ubora wa Juu katika utoaji wa Ripoti za Kifedha (FiRe) zilizokuwa zimeandaliwa kwa pamoja na Taasisi ya Wahasibu wa Umma Nchini Kenya (ICPAK) na Almashauri ya Sokola Mitaji (CMA) na Sokola la Ubadilishanaji Hisa la Nairobi (NSE); na

- Mshindi wa Pili katika kategoria ya Kuripoti Masuala ya Mazingira na ya Jamii katika Tuzo ya FiRe ya 2015.

Tumeendelea kutia nguvu na kuimarisha muundo na mabadiliko ya Bodi. Mnamo August 2015, Bw, Robin Bairstow, mmoja wa Wakurugenzi Watendaji, alijiuzulu kutoka kwa Bodi na kujiunga na shughuli nyingine na hapo Bw Benjamin Dabrah alijiunga na Bodi akiwa Mkurugenzi Aso-mtendaji.

Taarifa ya Mwenyekiti (Yaendelea)

Kushirikiana na Jamii

Tunao mwelekeo endelevu kwa biashara yetu ambao unaakisiwa na ahadi yetu, 'Here for Good'. Uendelevu umeshirikishwa katika jinsi tufanyavyo biashara. Unaongoza chochote tufanyacho, kutoka huduma tunazotoa hadi kwa wateja wetu, hadi kwa jinsi tunavyoendesha benki yetu na kuzisaidia jamii ambamo tunaishi na kufanyiakazi. Mtazamo wetu umejengwa katika nguzo tatu muhimu; kuchangia ukuaji endelevu wa kiuchumi, kuwa kampuni inayowajibika na kuwekeza katika jamii mbali mbali.

Kuchangia katika ukuaji endelevu wa kiuchumi unahusu jinsi tunavyosaidia wateja wetu kupitia kwa biashara yetu muhimu zaidi ambayo ni shughuli za benki. Tunapania kupandisha viwango vya mchango wetu hadi ufika kileleni katika maendeleo endelevu kwa kutoa fedha kwa biashara zilizo katika sekta zinazoleta ukuaji wa kiuchumi na utoaji wa nafasi za kazi na pia kuwawezesha watu binafsi kufikia huduma za kifedha kupitia kwa shughuli zetu za Wateja Rejareja wa Benki na kwa wateja wetu wa mashirika madogo ya ukopeshaji fedha wanaotoa huduma kwa watu binafsi wasioweza kufikia huduma za benki.

Kuwa kampuni inayowajibika ni kuhusu tunavyojitolea sio tu kwa shughuli za biashara tunazofadhilia, ila pia ni katika jinsi tunavyoendesha biashara yetu. Hili hujumuisha usimamizi, uzuiaji wa jinai za kifedha, watu na maadili, misingi ya kimazingira na wagavi wetu. Tudhibiti shughuli zote ili kuwapa wadau wetu tamani ya kudumu.

Licha ya mazingira ya kufanyia kazi yenye changamoto, tunaendelea kuwekeza kwa jamii na kufanya kazi nao katika kuimarisha maeneleo ya kijamii na kiuchumi kama anavyoakisiwa na ahadi ya chapa yetu ushirikishaji wa jamii ni kuishi katika ahadi ya chapa yetu ya 'Here for good'. Shughuli zetu za uwekezaji katika jamii zinashirikisha elimu na afya, huku vijana wakiwa ndilo rika lengwa. Kujitolea kwa wafanyakazi huwa ni muhimu kwa mtazamo huu, tunashirikisha wafanyakazi wetu ili wajitolee kwa muda wao na ujuzi wao ili kuathiri jamii hizi. Tunajihusisha katika miradi mitatu ya kijamii: 'Goal' (Lengo), programu ya kuwahimiza wasichana iliyozinduliwa mnamo 2015, 'Seeing is Believing' (Kuona ni Kuamini), mradi unaolenga kuondolea mbali upovu unaoweza kuepekika na mradi wa Elimu ya kifedha kwa vijana na biashara ndogo ndogo ambazo zinalenga kujenga uwezo wa kifedha kwa vijana na wanabashara wadogo.

Muktasari

Huku uchumi wa ulimwengu ukishuhudia changamoto nyingi tu, tutaendelea kupunguza jinsi tunavyokumbana na athari hizi kali, huku tukiwasaidia wateja wetu na kuwekeza katika kuboresha hazina zetu na taratibu zetu.

Uchumi wa Kenya unatazamiwa kuwa utaendelea kuimarika katika mwaka wa 2016 ukisaidiwa na bei nafuu ya mafuta uwekezaji katika miundo-msingi. Soko lina matumaini na linatuletea fursa ambazo tunaweza kuzitwaa. Tumejiweka katika nafasi nzuri ili tufaidi kutokana na maendeleo haya. Tunaegemea katika nguvu zetu; tuna maarifa yanayohitajika, ujuzi, tajriba, na mtandao wa kimataifa usiolinganishwa na wengine utakaotusukuma hadi tufikie mafanikio yetu.

Mabadiliko bainifu ambayo tumefanya katika biashara hii yanakabiliana na changamoto zilizopo ambazo zimeathiri mapato yetu. Nina furaha kuona kuwa mabadiliko haya yameshirikishwa pakubwa katika biashara yetu na nina imani kuwa mabadiliko haya yatasaidia kufikia maazimio yetu na kuhudumia wateja wetu vyema zaidi.

Kati ya jambo moja muhimu ambalo linatutofautisha na wengine katika soko hili limekuwa kila mara ni hazina ya vipawa tulionayo katika Standard Chartered. Ningependa kuwashukuru wafanyakazi wetu kwa kubakia imara katika kutekeleza mikakati yetu licha ya changamoto tulizozipitia katika mazingira ya kufanyia kazi.

Bodi inatambua umuhimu wa mifumo ya usimamizi thabiti katika kuelekeza jinsi tunavyofanya biashara. Kufikia hapa, tunaendeleza bila kulegea utamaduni unaofaa, maadili na tabia katika viwango vyote vya Benki. Kupitia kwa ukaguzi wa hesabu unahitajika na shughuli za kupunguza hatari tutaendelea kuhakikisha kuwa Benki ya Standard Chartered inafuata na hata kupita mahitaji ya kiudhibiti na kisheria katika kufanya biashara.

Mwishowe, ningependa kuwashukuru wateja wetu na wenyehisa wetu kwa kuendelea kutuunga mkono na pia Bodi na wafanyakazi wetu kwa kujitolea kwao kwa Benki ya Standard Chartered kwa mwaka wote wa 2015.

Anne Mutahi
Mwenyekiti wa Bodi

23 Machi 2016

Chief Executive Officer's Statement

> "We have a good and valuable franchise, core financial strength, outstanding client relationships and the right team of people. We have embarked on executing our new strategy to create capacity to invest and grow income."

Introduction

2015 was one of the most challenging years in the Company's history due to a number of factors, both external and internal. While our 2015 financial results reflect this, we have taken deliberate actions to position the Company for improved financial performance going forward.

In November 2015, the Standard Chartered Bank Group ("SCB Group") announced a strategic review which will uplift our financial performance and reposition our business on a strengthened platform. For Standard Chartered Bank Kenya, the key areas of focus within our strategic review include:

- Aligning our business strategy with tightened risk tolerance to create a more diverse and resilient balance sheet;
- Delivering cost efficiencies through investment in technology and funding incremental investments which build capacity in key areas of strength across the business;
- Restructuring our Commercial Banking segment to deliver on our refreshed strategy; and
- Rolling out enhancements within our Retail digital capabilities to enhance customer experience.

The strategic review will see us invest in our core strengths, and where we have or will have a competitive advantage.

2015 Performance

In November 2015, we signaled through a profit warning, our anticipation that the net earnings for the year ended 31 December 2015 would be at least 25 per cent lower than reported for the year ended 31 December 2014. Our financial performance reflects the challenging environment and is primarily due to three factors:

- An increase in the non-performing loans portfolio;
- The financial impact from the refreshed Group strategy which is driving a fundamental change in the business mix;
- A one-off net capital gain in 2014 relating to the disposal of a property.

Profit before taxation was KShs 9.2 billion compared to KShs 14.3 billion in 2014, a decline of 36 per cent.

Total revenue was KShs 24.8 billion, a KShs 0.8 billion decline from 2014, driven by the following:

- Interest income on loans and advances declined by KShs 0.8 billion to KShs 14.7 billion. This was weighed down by decreased average volumes. The growth in non-performing loans during the year further muted the growth in interest income;
- Interest income from investments in government securities increased by 20 per cent to KShs 6.8 billion due to increased liquidity and higher interest rates;
- Total interest expense increased by 13 per cent to KShs 5 billion mainly driven by an increase in average cost of funds coupled with growth in deposit volumes;

- Income from foreign exchange trading increased to KShs 2.3 billion, or 16 per cent year-on-year buoyed by volumes growth. This was however tempered by margin compression;

- Net fee and commission income increased by 7 per cent to KShs 4.2 billion driven by a reduction in fee and commission expense. We have been executing on the Retail Banking strategy since 2014 and this has contributed to the overall net increase in net fee and commission income;

- Other income decreased to KShs 0.5 billion from KShs 1.8 billion in 2014. The decrease was predominantly due to a one-off sale of a property in 2014 which contributed KShs 1.5 billion.

Total operating expenses increased by 9 per cent to KShs 11.1 billion as a result of the following:

- Staff costs which increased to KShs 6.2 billion, 8 per cent year-on-year as we continue to invest in the right talent to support our business, in addition to redundancy costs as a result of business restructuring in 2015;

- Premises costs decreased marginally primarily due to lower electricity tariffs during the year compared to 2014;

- Depreciation and amortisation at KShs 1.0 billion was flat compared to prior year;

- Other costs increased by 17 per cent to KShs 3.1 billion in line with increased operating costs coupled with the impact of the depreciation of the Kenya Shilling during the year.

Gross non-performing loans increased by 37 per cent to KShs 14.7 billion. This translates to 11.9 per cent of gross loans and advances (2014: 8.5 per cent). This is as a result of active management actions around the portfolio which saw non-performing loans increase in 2015. We have reviewed the portfolio extensively and continue to critically assess the quality of the loan book. The cover ratio is 56 per cent which is above the industry average cover ratio of 40.5 per cent.

The balance sheet remains highly liquid, well capitalised and diverse. We are primarily deposit funded with an advance to deposits ratio of 67 per cent (2014: 80 per cent). The Company is strongly capitalised, with a total capital to risk weighted assets ratio at 21 per cent. This strategically places us in a position to take advantage of growth opportunities in our business.

Business Review

Retail Banking

Our Retail Banking transformation is well underway and continued to make good progress in 2015. Our brand resonates with the growing affluent and emerging affluent client segments and we will invest to reinforce that brand. This, combined with a plan to deepen our presence in core cities where there is a large and growing affluent client base, is powering the growth of our Priority segment.

Retail Banking operating income increased by 8 per cent to reach KShs 10.9 billion with strong growth in the Priority sub-segment and Wealth Management. Customer loans & advances and deposits grew by 6 per cent and 20 per cent to close at KShs 58.2 billion and KShs 89.4 billion respectively. In 2015, we launched Bancassurance and this will contribute to the growth of Retail Banking income, which contributes 44 per cent of total income, as new products are rolled out.

Being at the forefront in technology is a key element of our Retail Banking strategy as we continue to invest in our digital capabilities to enhance efficiency and client experience.

Commercial Banking

Commercial Banking was established as a focused segment of small and medium sized corporate clients whose needs are substantially local but who can leverage the SCB Group's strong cross-border capabilities. Overall, performance was constrained by high loan impairment and weak income.

Income dropped by 14 per cent to KShs 1.7 billion compared to 2014 as a result of decreased loan volumes. The operating loss was KShs 2.3 billion compared to an operating profit of KShs 0.7 billion in 2014 impacted by an increase in the impairment charge.

Chief Executive Officer's Statement (Continued)

We have put a new management structure in place for the Commercial Banking segment and we are substantially upgrading our credit risk approach in line with our strategic review announced in November 2015. Commercial Banking contributes 7 per cent of total income, and with a consistent and client-focused approach, we will build a competitive business to serve this important client base.

The segment has a significant growth potential granted that small and medium sized companies are the key drivers of growth in Kenya. We have structured our lending solutions to focus on trade, working capital and secured lending.

Corporate & Institutional Banking

Corporate & Institutional Banking ("CIB") income was down 10 per cent year-on-year or KShs 1.3 billion impacted by subdued corporate activity which resulted in decreased client income. Profit before tax was also down by KShs 2.9 billion to KShs 7.0 billion. Operating expenses, which increased by 21 per cent to KShs 4.5 billion, impacted the profit. The increase in operating expenses was due to increased staff costs as well as depreciation of the shilling experienced in 2015. The CIB business contributes 49 per cent of the total income.

We have been repositioning the CIB segment so that the underlying strengths of our business become our areas of focus to take advantage of the emerging opportunities in Kenya and the region. We will continue building deep and enduring client relationships, and leveraging on our unique network and positioning in key trade corridors.

People

We are committed to attracting, developing and retaining an engaged team that can deliver on our brand promise, 'Here for good'.

In July 2015, the Company embarked on an organisational transformation journey, with the objective of creating efficiency and effectiveness in the way we work and approach business opportunities. Following the reorganisation, we reduced the number of staff to close the year with a staff compliment of 1,881.

The success of our strategy in 2016 will be determined by how our people execute it. Our people are the custodians of our vision and mission, and ensure high customer satisfaction and in turn revenue growth.

In 2016, our priorities will focus on aligning the hearts and minds of our people by building engaged and productive teams with a culture of high performance that will deliver our brand promise, 'Here for good' and help the Company achieve its objectives.

We intend to develop our people's capability to ensure that the business has the right talent in functional and front line roles for us to offer world class banking to our clients. We also plan to build on change management competencies across the business as a strategic capability that will enable the business to be flexible, change-ready and responsive to marketplace changes.

These People priorities will be embedded against a backdrop of a strong conduct culture that aligns with our brand promise of, 'Here for good'.

Outlook

We have a good and valuable franchise, core financial strength, outstanding client relationships and the right team of people. We have embarked on executing our new strategy to create capacity to invest and grow income. We have taken positive steps to re-shape the business and position it for growth in 2016 and the years ahead. We are harnessing technology to enhance our client's banking experience. In 2015, The SCB Group announced it will invest USD1.5 billion in technology over three years. We will continue to strengthen our digital capabilities in Retail Banking, streamline and focus our Commercial Banking segment to deliver on the enormous opportunities in the market, while building a strong pipeline of deals in Corporate & Institutional Banking.

We shall endeavour to serve our clients with innovative solutions and a superior customer experience. We have solid foundations that are underpinned by a long history in our markets, strong relationships with our clients, and most importantly passionate and resilient employees.

Chief Executive Officer's Statement (Continued)

In line with our brand promise, 'Here for good', we shall continue building a sustainable business in the long term and focus on conducting our business to the highest levels of ethics and integrity.

We have laid a solid foundation for our balance sheet growth and momentum and are looking forward to an outstanding performance in 2016 and beyond. The Company is fundamentally in good shape anchored on an outstanding product portfolio, very capable and talented people, a strong brand and the goodwill of our clients. We shall continue to build on these strengths to regain our leadership in the market.

We shall invest in opportunities where we can actually make a difference, where we have, or will have a competitive advantage and fix systems and processes holding us back.

We will continue to take the necessary actions to reposition the business for returns and disciplined growth. We will increase the value of our franchise through the relentless focus on execution of the new strategy.

I would like to express my gratitude to our clients, management team and employees for their invaluable efforts in building the Standard Chartered brand.

Lamin. K. Manjang
Chief Executive Officer

23 March 2016

Taarifa ya Afisa Mkuu Mtendaji

"Tunalo shirika lenye thamani, lenye nguvu muhimu za kifedha, mahusiano bora zaidi na wateja, na timu ifaayo ya wafanyakazi. Tuko tayari kutekeleza mkakati wetu mpya ili kuimarisha uwezo wa kuwekeza na kuwekeza na kuzalisha mapato."

Utangulizi

2015 ulikuwa ni mmoja wa miaka yenye changamoto kubwa zaidi katika historia ya Benki hii kwa ajili ya maswala kadha ambayo ni ya ndani na ya nje. Huku matokeo yetu ya fedha ya mwaka 2015 yakiakisi haya, tumechukua hatua za kimaksudi ili kuiweka benki katika hali ya kuboresha utendaji wa kifedha kuendelea mbele.

Mnamo Novemba 2015, Kampuni ya Benki ya Standard Chartered ilitangaza marekebisho ya kimkakati ambayo yataboresha utendaji a kifedha na kuweka biashara yetu katika jukwaa lililoimarika zaidi. Katika Benki ya Standard Chartered nchini Kenya, maeneo muhimu ya kumakinikia katika marekebisho ya kimkakati yanahusisha yafuatayo:

- Ili kuweka mikakati yetu ya kibiashara sambamba na mbinu za kupunguza hatari ili kuleta waraka mizania ulio wazi zaidi na ulioimarika;
- Kuibuka na mbinu za upunguzaji wa gharama kupitia kwa uwekezaji katika teknolojia na kufadhilia nyongeza katika uwekezaji ambao unaimarisha uwezo katika maeneo muhimu yanayohusu nguvu katika nyanja zote za kibiashara;
- Kubadilisha mifumo ya shughuli za Benki za kibiashara ili kufanikisha mikakati wetu mpya na
- Kuanzisha mifumo imara katika huduma zetu rejareja za kidijitali ili kuwapa wateja wetu hisia za kuridhishwa na huduma bora.

Haya mabadiliko ya kimkakati yatatuwezesha kuwekeza katika nguzo zetu kuu, na pahali pengine ambapo tunaibuka kidedea katika ushindani wa kibiashara;

Matokeo ya 2015

Mnamo 2015, tulitoa ilani ya faida, kwa matarajio kuwa mapato halisi ya mwaka uliokamilika tarehe 31 Disemba 2015 ungekuwa angalau asilimia 25 chini ya yaliyoripotiwa katika mwisho wa mwaka uliotamatia tarehe 31 Disemba 2014. Matokeo yetu ya kifedha yanaakisi mazingira yanayobadilika na kimsingi kwa masiala yafuatayo;

- Ongezeko la mikopo ambayo haiendelei kulipwa;
- Athari ya kifedha kutoka kwa mikakati mpya ya kampuni ambayo ambayo inaendesha mabdiliko ya hali za kibashara;
- Mapato ya kitita ya fedha katika mwaka 2014 yanayohusiana na uuzaji wa mali ya kampuni.

Faida kabla ya ushuru ilikuwa Sh 9.2 bilioni ikilinganishwa na Sh 14.3 bilioni mnamo 2014, anguko la asilimia 36.

Mapato ya jumla ya Sh 24.8 bilioni, yakiwa yamepungua kwa Sh 0.8 bilioni katika kutoka mwaka 2014, hali iliyosababishwa na yafuatayo:

- Riba kutoka kwa mikopo na arbuni ilipungua kwa Sh 0.8 bilioni na kufikia Sh 14.7 bilioni. Hii ilipunguzwa zaidi na viwango vywa chini vya viasi vya kadiri. Ongezeko la idadi ya mikopo isiyoendelea kulipwa mwakani lilimeza ukuaji wa mapato kutokana na riba;
- Mapato kutokana na riba ya uwekezaji katika hisa za serikali kwa asilimia 20 kufikia Sh 6.8 bilioni kutokana na ongezeka la pesa taslimu na viwango vya juu vya riba;

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

- Gharama ya jumla kwa riba ilongezeka kwa aslimia 13 na kufikia Sh 5 bilioni kiasi kikubwa kikisababishwa na ongezeko la kadiri ya gharama ya fedha pamoja na ukuaji wa viwango vya waweka amana;

- Mapato kutokana na biashara ya ubadilishanaji wa fedha za kigeni yaliimarika na kufikia Sh 2.3 bilioni, au asilimia 16 mwaka baada ya mwaka yakiinuliwa na viwango vya kadiri. Hata hivyo faida hii ilimezwa na msukumo wa gharama inayopanda na kufifisha mapato yanayotolewa;

- Ada halisi na mapato ya uwakala yalipanda kwa asilimia 7 na kufikia Sh bilioni 4.2 jambo lililosababishwa na kupungua kwa gharama ya ada na uwakala. Tumekuwa kukiendesha Mkakati wa Shughuli za Benki kwa Wateja Reja Reja kutoka 2014 na hili limechangia kuongezeka kwa kihalisia kwa mapato kutoka kwa ada na malipo ya mawakala;

- Mapato mengine yalipungua na kufikia Sh 0.5 bilioni kutoka Sh 1.8 bilioni mnamo 2014. Kupungua huko kulisababishwa hasa na mauzo ya mara moja ya mali ya kampuni mnamo 2014 ambapo ilichangia Sh 1.5 bilioni.

Gharama zote za jumla za endeshaji kampuni ziliongezeka kwa asilimia na kufikia Sh 11.1 bilioni kutokana na masuala yafuatayo:

- Gharama ya wafanyakazi iliyoongezeka hadi kufika Sh 6.2 bilioni, asilimia 8 mwaka kwa mwaka huku tukiendelea kuwekeza kwa talanta ifaaya ili kushikilia biashara yetu, pamoja na gharama ya kuwalipa wanaoondoka baada ya mabadiliko mapya katika kampuni mnamo 2015;

- Gharama za kulipia makao ya biashara zetu ilipungua kidogo kutokana na kupungua kwa ada ya umeme katika mwaka 2015 ikilinganishwa na 2014;

- Hali ya kuzorota kiuchumi na gharama ya malipo yaliyotenga na benki ikiwa ni Sh 1.0 bilioni, ilibakia hivyo ikilinganishwa na mwaka ulopita;

- Gharama nyinginezo zilipanda kwa asilimia 17 na kufikia Sh 3.1 bilioni sambamba na gharama ya uendeshaji kampuni pamoja na athari ya mporomoko wa shilingi ya Kenya katika mwaka uliopita.

Jumla ya mikopo yote ambayo haiendelei kujilipa ilipanda na ikafikia Sh 14.7 bilioni. Hii ni sawa na asilimia 11.9 ya mikopo yote na arbuni zote kwa jumla (2014: asilimia 8.5). Hili lilitokana na hatua za usimamizi kuhusiana na hali ya mikopo iliyokuwepo na hilo tayari lilishuhudia kuongezeka kwa mikopo isiyoendelea kulipwa kuongezeka katika mwaka wa 2015. Tumeichunguza upya kwa undani hali hii ya mikopo na tunaendelea kutathmini ubora wa rekodi za mikopo. Kiwango cha uwezo wa benki wa kuhimili mikopo isiyolipika ni asilimia 56 ambacho ni juu ya viwango vya kadiri vya asilimia 40.5 ambayo ndiyo vya sekta hii.

Waraka mizania ulibakia kuwakatika hali ya kuweza kuwa na pesa taslimu, wenye mtaji wa kutosha na ulio na mashiko kila upande. Huwa tuna fedha kutoka kwa amana iliyowekwa kwa mgao wa asilimia 67 kwa arbuni ililinganishwa na amana (2014: asilimia 80). Benki hii ina mtaji dhabiti, ikiwa na asilimia 21 ya mtaji wa jumla ukilinganishwa na hatari zilizopo. Hali hii hutuwezesha tuchukue hatua zifaazo za kimikakati ili kupanua biashara zetu.

Utathmni wa Biashara

Shughuli za Wateja

Uboreshaji kwa kubadilisha shughuli zetu za Benki kwa wateja reja reja unaedeshwa vyema na umeendeleakupiga hatua katika 2015. Kampuni yetu inaenda sambamba na ukuaji wa wateja matajiri na sehemu zinazoibuka kuwa na utajiri na tutawekeza ili kuimarisha mtazamo huo. Hilo, likichanganywa na mpango wetu wa kukita mizizi ya wepo wetu katika mij mikuu palipo na ukuaji wa utajiri miongoni mwa wateja wetu, linata nguvu uendeleaji wa sehemu ya Kipaumbele.

Mapato yatokanayo na bashara za shughuli za wateja rejareja yaliongezeka na kufikia Sh 10.9 bilioni na ukuaji mkubwa ukiwa katika sehemu ya Kipaumbele na Usimamizi wa Mali. Mikopo kwa wateja na arbuni pamoja na amana zao vilikua kwa asilimia 6 na asilimia 20 na kutimia Sh 58.2 bilioni na Sh 89.4 bilioni kwa usanjari huo. Mnamo 2015, tulizindua biashara ya kuuza bima kwenye benki (Bancassurance) na hili litachangia katika ukuaji wa mapato kutoka kwa uwekezaji wa wateja reja, sekta inayochangia asilimia 44 ya mapato yote, huku bidha mpya zikianzishwa.

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

Kuwa katika mstari wa mbele kiteknolojia ni sehemu muhimu katika mkakati wa biashara za benki kwa wateja rejareja huku tukiendelea kuwekeza katika uwezo wetu wa kidijitali ili kuimarisha ufasaha katika shughuli zetu na kuwapa wateja hisia za kuridhika.

Shughuli za Benki za Kibiashara

Shughuli za Benki za kibiashara zilianzishwa kama sehemu inayolenga kampuni ndog na za kadiri ambazo haja zao za kifedha ni za humu nchini lakini pia wanaweza kutumia fursa na uwezo wan je ya mipaka wanaopewa na Kampuni ya Benki ya Standard Chartered. Kwa jumla, utendaji ililemazwa na hali za mikopo mingi kutojilipana mapato haba.

Mapato yalishuka kutoka asilimia 14 kufikia Sh 1.7 bilioni yakilinganishwa na 2014 kutokana na ongezeko la viwango vya mikopo. Hasara ya kuendesha shughuli za benki ilikuwa Sh 2.3 bilioni ikilinganishwa na faida ya shughuli hizo ya Sh 0.7 bilioni katika 2014 ilichangia katika ongezeko la gharama ya upunguzaji wa thamani.

Tumeweka mfumo mpya wa kiusimamizi kwa shughuli za Benki za Kibiashara na tunamakinika katika kuboresha mtazamo wetu wa kukabiliana na hatari za kimikopo sambamba na marekebisho ya kimkakati yaliyotangazwa mnamo Novemba 2015. Shughuli za Benki za Kibiashara huchangia asilimia 7 kwa mapato yote, na tukiwa na mtazamo imara na makini unaomlenga mteja, tutajenga biashara imara inayoweza kuhudumia wateja wa aina hiyo.

Sehemu hii ina uwezo mkuu wa ukuaji ikikumbukwa kuwa kampuni ndogo ndogo na za wastani ndizo viendesha-uchumi vikuu nchini Kenya. Tumekarabati upya suluhisho zetu ili kumakinikia biashara, mtaji na ukopeshaji salama.

Shughuli za Benki kwa wateja wa Kampuni na Taasisi

Mapato kutoka kwa shughuli za Benki kwa wateja wa Kampuni na Taasisi yalishuka kwa asilimia 10 mwaka baada ya mwaka au Sh 1.3 bilioni kama athari ya shughuli za kampuni zilizopungua kutokana na kungungua kwa mapato ya wateja wetu. Faida kabla ya ushuru pia ilishuka kwa Sh 2.9 bilioni na kufikia Sh 7.0 bilioni. Gharama ya kuendesha kampuni iliyoongezeka kwa asilmia 21 na kufikia Sh 4.5 bilioni ilikuwa na athari kwa faida. Ongezeko la gharama ya uendeshaji biashara ilikuwa ni kutokana na ongezeko kwa gharama za kuwalipa wafanyakazi na pia mporomoko wa shilingi ya Kenya mnamo 2015. Biashara hii huchangia asilimia 49 ya mapato yote kwa jumla.

Tumekuwa tukipanga upya shughuli za Benki kwa wateja wa Kampuni na Taasisi ili nguvu za biashara zetu ziwe maeneo ya kumakinikia na kuchukua fursa ya nafasi zinazoibuka nchini Kenya na katika kanda ya Afrika. Tutaendelea kujenga mahusiano ya kina na yanayodumu na wateja wetu na kutumia mtandao wetu wa kipekee na kujiweka katika mikondo mikuu ya kibiashara.

Watu

Tunajitolea katika kuwavutia, kuwaendeleza na kuhifadhi timu iliyoshirikishwa kikamilifu ambayo inaweza kufanikisha ahadi ya kampuni yetu ambayo ni 'Here for good'.

Mnamo July 2015, Benki hii ilijifunga kibwebwe katika safari ya mabadiliko ya kimuundo wa kampuni, kwa lengo la kuleta matokeo na ufasaha wa kiutendakazi katika jinsi tunavyofanya kazi au tunavyokabili nafasi za kibiashara. Kufuatia kupanga upya huku, tulipunguza idadi ya wafanyakazi na kufunga mwaka tukiwa na na watu 1,881.

Kufaulu kwa mkakati wetu katika mwaka wa 2016 kutategemea vile watu wetu watautekeleza. Watu wetu ndio watunzaji wa maono na lengo letu kuu, na huhakikisha kuwa kuridhishwa wateja kwa hali ya juu na baadaye kuzalisha mapato.

Katika mwaka wa 2016, vipaumbele vyetu vitamakinikia katika kuelekeza mioyo na fikira za watu wetu kwa kujenga, timu zilizoshirikishwa, zenye kuleta matokeo na zenye utamaduni wa kuchapa kazi itakayotufikisha kwenye ahadi ya kampuni yetu ya 'Here for Good' na kusaidia Benki kufikia malengo yake.

Tunalenga kukuza uwezo wa watu wetu ili kuhakikisha kuwa biashara inazo talanta zinazofaa katika maeneo ya kiutendaji na katika majukumu ya mstari wa mbele kwetu ili tuweza kutoa huduma za viwango vya kimataifa kwa wateja wetu. Pia tunapanga kuimarisha ujuzi wa usmamizi wa mabadiliko katika biashara nzima hii kama uwezo wa kimkakati ambao utawezesha biashara hii kuwa inayotembea na wakati,iliyo tayari kwa mabadiliko na inayobadilika na mabadiliko ya soko la sasa.

Taarifa ya Afisa Mkuu Mtendaji (Yaendelea)

Hivi vipaumbele vya Watu, vitakitwa katika msingi wa utamaduni wenye maadili imara yanayoenda sambamba na ahadi ya kampuni yetu ya 'Here for Good'.

Mukhtasari

Tunalo shirika lenye thamani, lenye nguvu muhimu za kifedha, mahusiano bora zaidi na wateja, na timu ifaayo ya wafanyakazi. Tuko tayari kutekeleza mkakati wetu mpya ili kuimarisha uwezo wa kuwekeza na kuwekeza na kuzalisha mapato. Tumechukua hatua zifaazo ili kuunda upya biashara hii na kuiweka katika nafasi ya ukuaji katika mwaka wa 2016 na miaka ijayo. Tunashirikisha uwezo ya teknolojia ilikuimarisha huduma kwa wateja wa benki. Katika 2015, Kampuni ya Benki ya Standard Chartered Bank ilitngaza kuwa itawekeza $1.5 bilioni katika teknolojia katika miaka mitatu. Tutaendelea kuimarisha uwezo wetu wa kidijitali katika Biashara za wateja Reja Reja, kunyoosha na kumakinika katika biashara ya shughuli za Benki za Kibiashara kufanikisha nafasi kubwa katika shughuli za benki ndogo za kukopesha mashinani na huku tukijenga mkururo wa mahusiano ya kibiashara katika huduma za Benki za Kampuni na Taasisi.

Tutajitolea kuwahudumia wateja wetu kwa kutoa suluhisho za kiugunduzi na zilizo na huduma komavu. Tuna misingi imara iliyojikita katika historia ndefu ya masoko yetu, uhusiano imara na wateja wetu, na muhimu zaidi wafanyakazi wenye ari na waliomakinikia kazi zao.

Kuambatana na ahadi ya kampuni yetu ya 'Here for good', tutaendelea kujenga biashara za kudumu na kuangazia katika kuendesha biashara yetu katika viwango vya juu zaidi vya kimaadili na kuwajibika.

Tumeweka msingi imara katika uimarikaji wa waraka mizania wetu na kasi na tunatazania mbele kwa matokeao bora zaidi katika mwaka wa 2016 na kuendelea mbele. Benki hii kimsingi, iko katika hali nzuri iliyojikita katika bidhaa adimu na muhimu, watu wenye talanta na uwezo wa hali ya juu, kampuni inayotambulikana na wateja wenye nia njema.Tutaenelea kujenga misingi yetu katika nguvu hizi ili tuejeshe nafasi yetu katika kuongoza soko la huduma za benki.

Tutawekeza katika fursa na abra ambazo zitatufanya tuwe tofauti, ambapo tuna nafasi ya mbele katika mashindano na turekebishe mifumo na michakato inayoturudisha nyuma.

Tunaendelea kuchukua kilahatua ili kuirejesha biashara hii kwa kuongeza mapato na kwa njia ya ukuaji wenye nidhamu. Tutaongeza thamani ya kampuni yetu kupitia kwa makini isiyo kikomo na kuzingatia mkakati mpya.

Ningependa kutoa shukran zangu kwa wateja wetu, timu ya usimamizi na wafanyakazi wetu kwa bidii isiyokadiriwa thamani katika ujenzi wa kampuni itambulikanayo kama Standard Chartered.

Lamin. K. Manjang
Afisa Mkuu Mtendaji

23 Machi 2016

Sustainability Review

Promoting sustainable economic and social development

About us

Standard Chartered Bank Kenya Limited started operating in Kenya in 1911 when the first branch opened in Treasury Square, Mombasa. We have a total of 39 branches, 98 Automated Teller Machines (ATMs) spread across the country and over 1,800 employees.

In 1989, the Company was listed on the Nairobi Securities Exchange and currently has a local shareholding of 25.01%, comprising 30,413 shareholders.

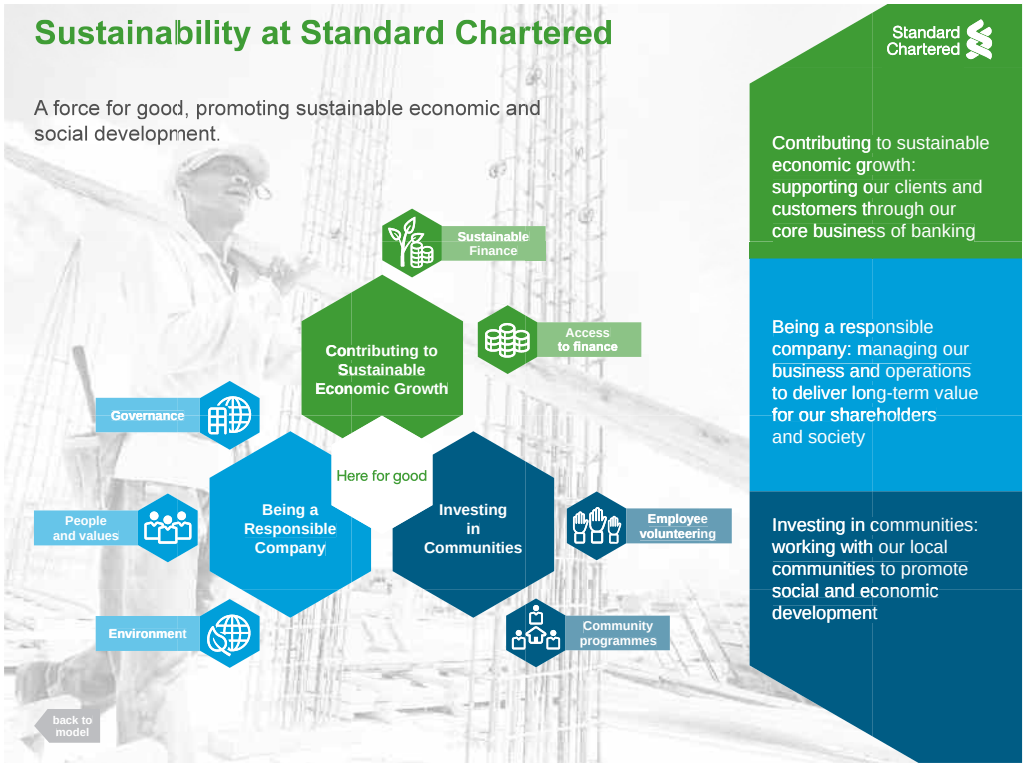
We are the oldest foreign bank in Kenya. Our capital, deposit base, and lending portfolio is reported in Kenya Shillings, and we offer a variety of local and foreign currency accounts, both deposit and loan, to our customers.

We have a diversified portfolio cutting across select sectors that include Oil and Gas, Energy and Electricity, Fast Moving Consumer Goods, Transport and Communication, Financial Services, Manufacturing, Trade, Real Estate and Agriculture.

2015 Highlights

- Best Consumer Digital Bank- Global Finance Awards;
- Best Mobile Banking- Global Finance Awards;
- Best Bank in Customer Satisfaction - THINK BUSINESS Awards 2015;
- E-Commerce Warrior Award- Visa 2015; and
- Efficiency Award- Visa 2015.
- Overall winner Banks category Excellence in Financial Reporting (FiRe) Awards - Institute of Certified Public Accountants in Kenya, Capital Markets Authority & Nairobi Securities Exchange.
- Through Employee Volunteering programme, our staff contributed a total of 1,924 days to support various community initiatives across the country.

Our sustainable business priorities



Sustainability Review (Continued)

Contributing to sustainable economic growth

Sustainability and our business

Standard Chartered strives to ensure that the financing we provide supports economic and social development in the markets we operate in. Our approach to sustainability in doing business focuses on three priorities: Contributing to sustainable economic growth, being a responsible company and Investing in communities.

We are committed to providing products and services to individuals and companies driving local, regional and global economic development and job creation. In response to the dynamic nature of markets, we help realise these opportunities by providing dedicated financial services that help spur economic growth.

The credit and other financial services we provide help businesses to set up, trade, grow and protect their wealth for the future. By doing all this responsibly and efficiently, we can have a positive effect on sustainable development , contributing to economic growth in the long term and enabling communities, businesses and people to thrive.

Contributing to sustainable economic growth

As a leading financial institution, we are committed to promoting positive social and economic development in the markets where we operate. Contributing to sustainable economic growth is about how we support our clients through our core business of banking.

Access to finance

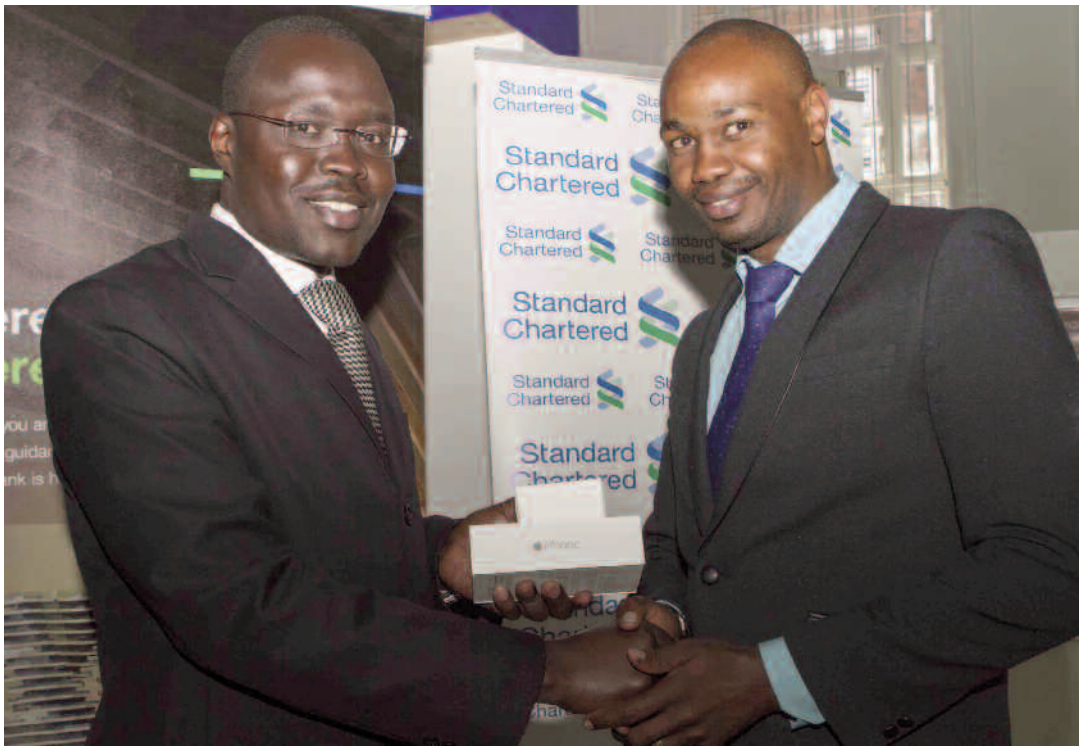
We support trade, infrastructure and other key sectors of the economy that create the foundation for long-term sustainable growth. We provide financial products and services to enable our clients reach individuals who lack access to banking services and at the same time we share our expertise to support the deepening of financial markets. We seek to maximise our contribution to sustainable development by providing financing to businesses in key sectors that enable economic growth and job creation. We also provide access to finance to individuals through our Retail Banking operations and to our microfinance institution clients who provide services to individuals who lack access to banking services.

Razia Khan (Right), Standard Chartered Chief Economist interacts with a client during a Global economic briefing event in Kenya.

By the end of 2015, gross lending to individuals stood at KShs 59 billion, whilst lending to Commercial Banking and Corporate & Institutional Banking stood at KShs 14 billion and KShs 51 billion respectively.

Retail Banking

The Retail Banking (RB) segment is growing at a rapid pace with technology being the key to access customer segments. Competition has intensified especially on the digital front with all players trying to enhance their digital capabilities to further enhance customer reach. Our RB business is heavily investing in this channel to make up for our strategic branch network distribution.



David Idoru (Left), Head of Retail Banking presents a prize to a winner of a client promotion

Sustainability Review (Continued)

Contributing to sustainable economic growth (Continued)

Dickson Sitei Head of Personal Clients Segment presents a gift to a Client.

Our strategy is geared towards shifting from the traditional product focus to a more client-centric strategy. Though the business environment was characterised by turbulent market conditions, we experienced a strong finish towards the end of 2015 which has helped to build momentum into 2016. Our main focus is to build all the sub-segments i.e. Wealth Management, Priority, Personal and Business Banking and create strong engines of revenue growth.

To sustain our growth journey in 2016, we are laying emphasis on the following customer value propositions:

• Digital Banking
We continue to focus on offering our customers a differentiated experience every time they transact with us. In 2016, we are revamping our online and mobile platforms to make them more robust. We aspire to be the leader in digital banking and automation and bring speed, convenience and personalisation to our clients.

In order to improve client experience, we have introduced service guarantees to help us to continuously improve our performance through Enhanced Relationship Management with a target of 80% Net Promoter Score (NPS) in 2016 up from 63% in 2015.

• Branches
We shall deepen our presence in select locations, whilst maintaining a standardised look and feel around the country and especially focusing on high value segment areas.

• Growing active customers
Our teams are focusing mainly on growing the high value segments and keeping them active and transactional. A huge amount of work went into ensuring we have the right clients in our books in our target segments.

Bancassurance
In 2015, we launched Bancassurance to reinforce the Company's strategy to provide integrated financial services. In partnership with AIG Kenya Insurance and Pan African Life we have non exclusive distribution agreements which allow Standard Chartered Insurance Agency Limited, a subsidiary of the Company to offer both short term (General Insurance) and long term (Life Insurance) products.

Our long term products include Endowment Policies, Education Policies, Funeral Plans, Personal Accident Insurance, Term Life Covers, Group Life Insurance and Mortgage Protection Insurance.

Through our branch network, we are providing full financial planning to our clients based on the closely knit relationship we enjoy. This will immensely add value to our clients aspirations. We have entered the insurance business in Kenya with a strong conviction to make a difference and add value to our clients. Our strategy is to provide integrated

Lamin Manjang (Centre) CEO Standard Chartered is joined by Mugo Kibati (Left) CEO Pan Africa Group and Japh Olende, CEO AIG Group during the launch of the Bank's Bancassurance business.

financial services tailored to the lifecycle of the customer. In 2015, we trained 50 per cent of frontline staff within six months of launch to enable them to provide exceptional service.

Commercial Banking

The Commercial Clients segment was established in 2014 with a strong focus on supporting medium sized companies in our market and working with established entities that are in various stages of evolution, growth and expansion.

In a bid to reposition the Company and provide a more targeted client offering, the Local Corporates business of the erstwhile Corporate Bank and the Commercial Clients businesses were combined effective 1st December 2015 to create the Commercial Banking (CB) business segment. This fundamental shift speaks to the heart of Standard Chartered's growth strategy in 2016 and will position the Company to serve our clients better and compete more effectively in our markets.

For a small but fast growing business, the CB undertakes client-needs assessment, structures financing solutions to address working capital and term lending requirements, and avails dedicated relationship managers to give consistent support, advice and service. The business also provides risk management strategies that assist clients in managing interest rate and foreign exchange risk.

Our products include:

- Cash Management: Our team of liquidity management specialists provide consultation services and customised solutions for clients based on their objectives, geographies and operation, whilst factoring in tax and regulatory considerations to ensure viability and optimal benefit.

George Mutua, Head of Global Corporate, (Right) engages clients at an event.

- Trade Finance: Our first-in-class Working Capital solutions enable our clients to manage their cash conversion cycles efficiently.
- Electronic/Mobile Banking: The Straight2Bank platform provides a single, one-stop portal for all cash, trade, custody and foreign exchange requirements across multiple markets and currencies. These provides our clients with greater productivity and transparency, reducing working capital cycles and integrating the physical and financial supply chains
- Long and short-term lending: We provide a comprehensive range of short term and long term financing solutions to meet the needs of our clients with focus on growing their business and building long term relationships.
- Foreign Exchange: We have a team of dedicated Treasury

Vera Zhan Commercial Clients Relationship Manager (left) interacts with Chinese clients.

Sustainability Review (Continued)

Contributing to sustainable economic growth (Continued)

Mr. Lamin Manjang, CEO Standard Chartered Bank Kenya (left), with Adil El Youssefi MD Airtel Kenya during a partnership launch.

Sales and Trading experts who provide tailor-made solutions for clients dealing in foreign currency.

The Commercial Banking business is committed to growing this segment by providing:

- Value-adding product structuring.
- A strong electronic delivery focus.
- Building on Supply Chain Financing by banking the suppliers onto our Corporate customers.

Corporate and Institutional Banking

The Corporate & Institutional Banking (CIB) segment serves the Company's global clients. CIB aims to serve as a Trusted Advisor to our global clients, supporting their cross-border transactional and investment needs across Africa, Asia and the Middle East.

To deliver this, CIB comprises of two client sub-segments:

- Financial Institutions which covers Banks, Broker Dealers, Investors & Insurance companies, Development Organisations and Public Sector clients; and

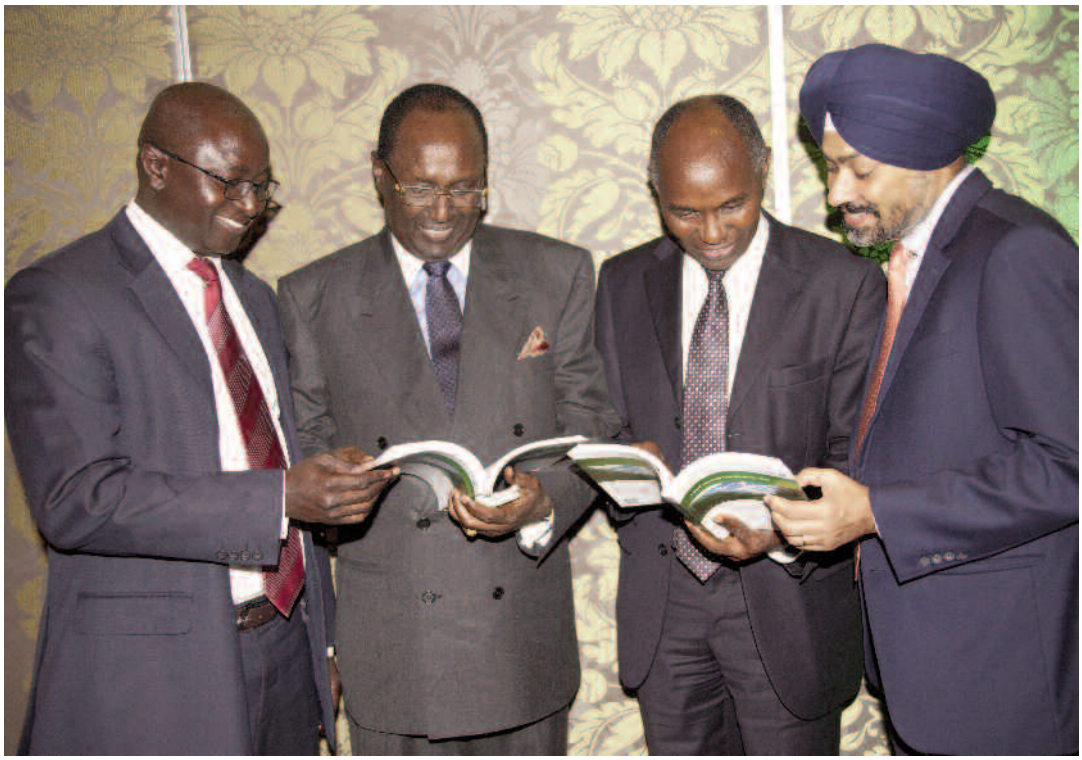
- International Corporates which focuses on provision of seamless coverage and solutions to the local subsidiaries of global Multi-National Corporations that operate in Kenya. In addition, the team covers government parastatals as well as large local and regional corporates with international aspirations that need sophisticated banking solutions.

To support these two sub-segments, CIB has three product groups that provide specialist knowledge and expertise to all client segments. These are:

- Transaction Banking: provides top-of-class Working Capital and Liquidity Management solutions to corporate clients via Standard Chartered's award-winning Straight2Bank electronic platform. Transaction Banking's capabilities include Cash Management, Trade, Securities Services and Correspondent Banking solutions designed to give our clients a competitive edge over their peers.

- Financial Markets: offers a full suite of Foreign Exchange, Fixed Income, Commodities and Debt Capital Markets solutions to our corporate and commercial clients. Standard Chartered is the only bank in Kenya that has a structured sales desk dedicated to providing sophisticated Financial Markets solutions to Kenyan firms.

- Corporate Finance: provides customised and innovative corporate finance solutions to help corporate and commercial clients meet their strategic objectives. Through a hybrid onshore and offshore coverage model, Corporate Finance offers solutions in Structured Trade



Lamin Manjang (Left) and Tejinder Singh (Right) Head CIB review a report with our Clients.

Finance, Mergers & Acquisitions Advisory, Project & Export Finance, Leveraged Finance, Structured Finance and Principal Finance.

2015 was characterised by increased volatility in the global economy resulting in significant impact on Kenya's interest rate and exchange rate regimes. Against this backdrop, the 2015 focus was on building a sustainable business whilst helping clients to navigate challenges.

Standard Chartered continues to be the market leader in the provision of Custodial Services to offshore and local investors, with over 70 per cent market share of the offshore Custodial Services market. We continue to work with our domestic and international clients to roll-out more market-leading products and services that facilitate investment in Kenya's Capital Markets while at the same time growing our market share. We continue to be the preferred partner for institutions in the Development Organisations (DO) sector, with our portfolio now boasting nearly all the major DOs operating in Kenya.

Our unparalleled strength in the provision of strategic & value-add solutions to our CIB clients in Kenya continues to set us apart from our competitors.

In 2015, we rolled out a seamless tax payment solution in partnership with the Kenya Revenue Authority (KRA). With this offering, all our clients can now pay their Income Tax and Excise Duty to KRA at any time of day, 24 hours a day and 7 days a week, all from the comfort of their home or office via our Straight2Bank online platform. Standard Chartered is the only Bank that offers this solution in Kenya.

We continued to play our role as the industry leader in the provision of risk management solutions in 2015. Due to the exchange rate volatility experienced throughout the year, we strengthened our Financial Markets capabilities, launching a dedicated Structured Sales desk aimed at providing sophisticated Financial Markets solutions to Kenyan firms that deal in foreign currency. We further consolidated our position as the leading Chinese Yuan ("CNY") solutions provider to Kenyan corporates that trade with China, while we continued to retain our position as the bank of choice for Chinese firms setting up in Kenya.

In 2016, we shall continue to build on our strengths in pursuit of our mission to be the 'World's Best Networked Bank' for Asia, Africa and the Middle East supporting clients' cross border transactional and investment needs.

Sustainable finance

We are committed to upholding leading Environment and Social (E&S) standards in the way we do business. This is founded on our 20 Position Statements which spell out environmental and social standards that guide our conduct. The Position Statements address agribusiness, chemicals and manufacturing, fisheries, infrastructure, renewable energy and an expanded statement on children's rights. Our sustainable finance framework is outlined in the Position Statements. This forms the basis of our relationship with clients and dictates the nature of business we may engage in.

Being a responsible company

Our commitment to sustainability is not only about the business activity we finance but also about how we run our business. We are focused on building a business consistent with our values and managing our operations to deliver long term value to our stakeholders. Being a responsible company focuses on how we manage our operations and run our business. This commitment is embedded in our policies in managing people, conduct, financial crime and the environment.

Dr. Wilson Songa (Centre) PS Ministsry of Industrialisation presents the 2015 Corporate Governanace awards to the Standard Chartered team.

Governance

As a leading international bank, we strive for best practice in corporate governance across our footprint. We believe that simply complying with

Sustainability Review (Continued)

Being a responsible Company (Continued)

written corporate governance standards is not enough. It is vital for companies to have an underlying culture with behaviours and values that support effective corporate governance. It is the responsibility of all of our employees to be responsive and vigilant to ensure compliance with both the letter and the spirit of our governance framework.

At Standard Chartered, every employee is expected to live the brand promise, 'Here for good', and be part of a culture that is open and challenging, yet cohesive and collaborative. We take care to ensure that all employees have, and demonstrate, the necessary skills, values and experience commensurate with their responsibilities. We place as much emphasis on the way employees behave as on what they deliver.

Tackling Financial Crime

Behind every financial crime there are real human stories of poverty, drug addiction, slavery through human trafficking; loss of lives amongst others. It is therefore the Company's responsibility to fight financial crime not just because it is the right thing to do but it is also an integral part of good conduct and our brand promise, 'Here for good'. We are cognisant of the fact that our aspiration to be the best international bank can only be achieved by Standard Chartered leading the way in the fight against financial crime.

It is against this backdrop that we continue to invest heavily in improving our financial crime governance and control framework. Under the Financial Crime Mitigation Programme we now have additional investment in financial crime resources including world-class training and up skilling opportunities under the Financial Crime Academy. Company-wide training programs for financial crimes have also been enhanced including an introduction of an annual e-learning re-certification for Anti-Money Laundering (AML)/ Sanctions, and Bribery and Corruption. Previously we had 24 months re-certification programmes for AML/ Sanctions and none for Bribery and Corruption. As at 31 December 2015, we recorded more than 90 per cent completion rate of the mandatory financial crime training. This will ensure consistent refreshing of employees' knowledge and awareness of financial crime.

The financial crime training programmes also included outreach programmes to our correspondent banking relationships. In July 2015, the Company hosted a Financial Crime Compliance (FCC) Academy for financial institutions clients across East Africa which included training on sanctions and AML. We had 58 delegates from Uganda, Tanzania, Ethiopia & Kenya. 32 banks were represented, including Central Bank of Kenya.

In acknowledgment of the Company's high inherent risk to AML and Sanctions risk, the Customer Due Diligence (CDD) policy and procedures were uplifted to include de-risking measures. This is testament to the fact that the Company's commitment towards the fight against financial crime goes beyond the bottom-line. Uplifted CDD standards were rolled out for the RB segment and more than 1,000 staff in the segment were trained on their implementation. Additional due diligence procedures for CIB and CB segments were also introduced. This will allow better knowledge of our customer base which is a major element in our financial crime compliance framework.

AML/Sanctions, and Bribery and Corruption policies and procedures were also updated to ensure alignment with risk trends and the regulatory environment.

Investment in financial crime systems included the roll-out of the Trade AML post and pre-screening within the Trade SAM platform, improvement in transaction screening with a more robust case management system and improvement of the sanctions database through introduction of Veritas, a watch list management platform. In 2016, we shall continue to invest in world class financial crime automated platforms.

Olga Arara-Kimani, Head Corporate Affairs and Brand Marketing is joined by Wilmot A. Reeves (Left) UNDP Economics Advisor and M. Mailu of Ministry of Devolution and Planning during the launch of Sustainable Development Goals

Sustainability Review (Continued)

Being a responsible Company (Continued)

People and values

We purpose to contribute to business growth by enabling the Company to attract, develop and retain an engaged team that will deliver on our brand promise, 'Here for good'. We are keen on employee productivity, hence our focus is to build on our employee's capability and provide them with attractive careers and personal development. This is made possible by working closely with our teams to align the People Agenda to the Business Strategy. We have a dedicated Human Resource Business partnering Model that brings this alignment to life.

In July 2015, the Company embarked on an organisational transformation journey, with the objective of creating efficiency and effectiveness in the way we work and approach business opportunities. Following the reorganisation, we had a staff compliment of 1,881 employees at close of 2015. We also engage interns as part of our commitment to prepare students to take up corporate roles in the market, as well as for a talent pipeline for our own talent needs within the Company.

Investing in learning and development

We are committed to ensuring our people have opportunities to develop and grow their careers. In order to ensure a steady pipeline of talent, we run a robust graduate recruitment programme. In 2015, through the International Graduate programme, we recruited four graduates. This brings to 71 the number of staff who have been hired through the programme. We provided 26 interns industrial attachment opportunities last year in a bid to ensure ongoing investment in learning and talent development.

Our internal Learning Academy continues to facilitate induction, work-based learning and coaching and also introduce employee and management development programmes with an emphasis on management and leadership skills. Last year, a total of 1,924 employees took courses in various disciplines at the Academy.

The Company also sponsored four talented women to a leadership development programme, the Female Future Leaders aimed at fast-tracking women leadership capabilities. The programme is spearheaded by the Federation of Kenya Employers (FKE) and combines a rich mix of classroom, coaching, mentoring and experiential learning.

The correlation between employee engagement and performance cannot be over-emphasised. Our people are the custodians of our vision and mission, and ensure high customer satisfaction and in turn revenue growth. In 2015, we partnered with our people to deliver a number of exciting employee engagement programmes:

February 2015 was the Financial Literacy month, an initiative aimed at providing financial skills to our people and improve employee engagement. In partnership with our senior leaders, we trained over 900 staff in prudent financial management.

During the year, we introduced Flexible Work Arrangements, with the objective of providing employees with a fair work-life-integration, to increase productivity and build on engagement.

We also hosted a Wellness month where doctors set up mobile clinics in the office and carried out screening for various occupational illnesses and provided nutritional advice. The Company also introduced a Mothers Room and reserved parking for pregnant mothers in an effort to look after the welfare of employees with family needs.

WELL DONE: Members of staff are honoured at the quarterly CEO Awards ceremony.

Diversity and inclusion

We are committed to creating an inclusive environment that is free from bias, where everyone can realise their full potential. We encourage greater diversity in our workforce, recognising that this helps develop and retain our people, and provides better support to our diverse client base.

Sustainability Review (Continued)

Being a responsible Company (Continued)

Our Diversity and Inclusion programme ensures that our employees are representative of our market and client profile. Our active Diversity & Inclusion Council is instrumental in incorporating all employees into the Company's exciting culture. Our Gen Y committee creates engaging activities for our young and young at heart. Some of the activities include a mentorship programmes by senior and middle level management. Our men's network dubbed 'Boots' and our women's network 'SKIRTS' (Sisterhood, Knowledge, Integrity, Respect, Tenacity and Substance) initiatives engage male and female colleagues on issues pertinent to them.

Apart from internal engagement aimed at realising potential for women employees, SKIRTS also reached out to the community. SKIRTS partnered with HURU, a charitable organisation registered both in Kenya and in the United States of America that produces and distributes kits of Reusable Sanitary Pads (RSPs) and other essential resources to underserved adolescent girls throughout Kenya. The initiative helped keep over 1,000 girls in school in 2015.

In 2016, our People priorities will focus on aligning the hearts and minds of our people by building engaged, productive teams with a culture of high performance that will deliver our brand promise, 'Here for good' and help the Company achieve its objectives. We intend to further develop our people's capability to ensure that the business has the right talent in functional and front line roles for us to offer world class banking to our clients. We also plan to build on change management competencies across the business as a strategic capability that will enable the business to be flexible, change-ready and responsive to marketplace changes.

These People Priorities will be embedded against a backdrop of a strong conduct culture that aligns with our brand promise, 'Here for good'.

Health, safety and wellness

We are committed to providing a safe, secure and healthy working environment for our employees and clients. We remain steadfast in our commitment to ensure the highest standards of health and safety wherever we operate. This includes established global ergonomic design standards to minimise any occupational injury or illness, online health and safety training, and an online safety and incident reporting portal.

We continued to ensure compliance to the Occupational Safety and Health Act of 2007 through:

- renewing our workplace registration certificates and registering new branches;
- carrying out health and safety audits through registered safety advisors;
- carrying out fire audits in line with the Legal Notice No. 59 on fire risk reduction rules;
- carrying out risk assessments throughout our branches and offices so as to ensure that health and safety hazards are identified and eliminated and risks minimised; and
- training of about 100 employees on fire safety and basic first aid skills.

Environment

As part of our overall environmental policy, we seek to minimise the environmental impact of our operations and have targets in place to reduce the rate of our energy and water usage.

We have environmental standards that touch on:

- energy efficiency;
- guidance on environmentally preferred products;
- waste management;
- environmental data assurance; and
- environmental targets.

Members of staff taking part in a tree planting exercise at Karura Forest.

Sustainability Review (Continued)

Investing in communities

In 2015, the Standard Chartered Bank, out of 2,000 listed companies that submitted to the Carbon Disclosure Project (an independent benchmarking scheme) scored amongst the top 5 per cent – putting us in the leading pack.

We also monitor our buildings through the Group Environmental Management System (GEMS), where buildings over 10,000 sq. ft are monitored for the energy and water usage. In 2015, Kenya had 7 buildings in our portfolio that fall in this category.Overall, there was a slight drop in the 2015 results as far as Energy Use Intensity (EUI) and Water Use Intensity (WUI) . Our EUI was at 269 kwh/m2/yr in 2015 compared to 240 kwh/m2/yr in 2014. This was attributed to increased use of diesel powered generators especially in the month of May, when the properties suffered several power supply interruptions.

Our WUI also went up by 12% from 1.61 kl/m2/yr in 2014 to 1.80 kl/m2/yr in 2015. This was attributed to specifically the Chiromo Head Office where mains water supply was erratic forcing the Bank to purchase water to support the usage in the building.

We continue to keenly and closely monitor our EUI and WUI against the 2019 Glide Path target. The 2019 Glide Path target for EUI is 230kwh/yr/m2 and the WUI is 0.5m3/yr/m.

In 2016, we have targeted to implement some measures towards improving our EUI and WUI. Amongst them is to complete the installation of LED (Light Emitting Diode) lights at the head office building. Further exercises across the GEMS in Kenya will see the Company return to the desired trajectory meeting our Glide Path targets for 2016 and beyond.

Peter Gitau, Chief Information Officer joins the UNDP team at the launch of Sustainable Development Goals

In 2015, we successfully relocated three branches; Kisumu, Thika and Ruaraka. All these branches are now fitted with modern energy saving lighting systems.

Investing in communities

We are committed to promoting positive social and economic development in Kenya. In 2015, we continued to focus on sustainability and community engagement to live our brand promise, 'Here for good'. This relationship is anchored on our four main sustainability pillars; 'Seeing is Believing', Financial Education, Goal and 'Positive Living'.

Beneficiaries of Seeing is Believing initiative at the launch of 2015 Standard Chartered Nairobi Marathon.

Community Programmes

'Seeing is Believing'

The Company appreciates the challenges in health care that developing countries face. We aim to boost and support the efforts of the government and health partners to improve access to child eye health care through improved child eye health care delivery, strengthening human resources for eye health care, expanding infrastructure and equipment for delivery of eye healthcare as well as supporting operational researches on eye care. In this regard, we are implementing 2 'Seeing is Believing' programmes – 'Seeing is

Sustainability Review (Continued)

Investing in communities (Continued)

A pupil undergoes eye screening at a Seeing is Believing outreach.

Believing' East Africa Child Eye Heath Care programme, a three year programme launched in 2013 and 'Seeing is Believing' Phase V project based in Rift Valley launched in 2014.

'Seeing is Believing' East Africa Child Eye Heath Care Programme key highlights to date are as follows:

- 155,343 Cataract operations carried out;
- 133,219 patients screened;
- 742 spectacles and low vision devices supplied;
- Over 11 million beneficiaries reached through health education;
- 505 nurses trained;
- 838 community staff trained; and
- Over 82,000 other medical interventions.

Standard Chartered Nairobi Marathon

Once again the 2015 Standard Chartered Nairobi Marathon lived to its promise of being the biggest sporting event in East and Central Africa. The event marked the 13th anniversary attracting more than 21,000 participants, an increase of 2,000 compared to the 2014 event. We raised a record KShs 40 million against a target of KShs 30 million. This brings to over KShs 150 million the funds raised for the 'Seeing is Believing' initiative through the marathon.

The 2015 event was undoubtedly the best since inception. Several changes were incorporated to increase participation and enhance contribution to the 'Seeing is Believing' initiative. A new category dubbed the CEO Challenge was introduced to bolster the 'Seeing is Believing' charity kitty. The three kilometer fun run featured CEOs and policy makers from more than 20 companies. We also introduced a new product, the Marathon Saver Account, which gave participants an opportunity to enjoy up to 15% interest on their fixed deposits. The product was specifically designed to reward marathon participants for their loyalty to the causes. By opening the Marathon Savers Account, participants will earn the special interest rate from November 2015 to June 2016.

The Marathon has continued to contribute immensely in raising Kenya's profile. The annual event brings together runners, volunteers and supporters from all over the country as well as foreign participants. It is the only marathon in Kenya accredited by IAAF and is part of the 10 marathons sponsored by Standard Chartered Bank across the world. In partnership with Athletics Kenya, we have continued to ensure that international standards are adhered to during the race.

Since its launch 13 years ago, the Standard Chartered Nairobi Marathon has served as a platform where budding athletes have launched their international careers. Only one winner has successfully defended their title. It has changed the lives of many while at the same time giving livelihoods to many Kenyans through the eye care program.

The Nairobi Marathon has also accorded our partners the best platform to leverage their brand. Our partners have used

Henry Wanyoike (Second Right) Seeing is Believing ambassador joins 2015 Standard Chartered Nairobi Marathon winners Junior Category during prize giving.

the marathon to engage their existing customers and build customer loyalty, engage potential clients thereby increasing market penetration and increased their product exposure and visibility. We are happy that our esteemed co-sponsors who share our belief and vision of eliminating avoidable blindness are profiled to across range of local and international participants using this platform.

Aside from our employees, the Standard Chartered Nairobi Marathon has been our greatest brand ambassador and driven our visibility not only in Kenya, but beyond borders. Our vision for the event is clear; to ensure that the Standard Chartered Nairobi Marathon is the most distinguished marathon in Africa and an all encompassing national event that Kenyans feel proud of. We have worked tirelessly to position the Nairobi Marathon as the leading Corporate Social Responsibility event in the country affirming our brand promise: 'Here for good'.

We will continue to grow the level of investment in the marathon to enhance its profile.

Goal Project

Goal is our global education programme for adolescent girls. Through a combination of sports and life skills training, the programme aims to empower and equip adolescent girls with the confidence, knowledge and skills they need to be integral economic leaders in their families, communities and societies. In Kenya, Goal was launched in June 2015 and reached 2,525 girls from disadvantaged backgrounds. Through the Goal curriculum, the participants are equipped with knowledge on self esteem, reproductive health and financial management. The Kenya Chapter of Goal is being implemented in partnership with Vijana Amani Pamoja, an NGO operating in the eastern part of Nairobi. Five schools, Mcedo Beijing and Mercy Care Primary Schools from Mathare, Nazareth Primary from Mukuru and Ngei Primary and Secondary Schools from Huruma, were selected to take part in the first phase of the programme.

We believe investing in women has a multiplier effect on the society. Adolescent girls have the potential to be the most significant agents of change in the community and to a larger extent the economy.

'Positive Living'

Our 'Positive Living' programme promotes awareness and understanding of HIV and AIDS. We partnered with the MTV Staying Alive Foundation, SAF, to implement the 'Positive Living' campaign. We appointed SAF to manage a grant programme and country specific campaigns to raise awareness and promote education on HIV and AIDS. The foundation provides small grants to organisations led by young people aged between 15 and 27 years who are using innovative approaches to beat HIV in their local communities. Last year, the SAF grant was awarded to Swadakta Dance Crew which trained 25 peer educators on HIV (10 more than planned) and 27 health personnel on how to provide youth-friendly HIV services. It conducted monthly meetings with 76 young people and also held parent-youth forums. Swadakta also visited several schools in the area, where it held sex health symposiums, reaching 568 students. In total, Swadakta's outreach activities in 2015 were attended by 736 beneficiaries. During the community engagements, more than 9,000 condoms were distributed.

Goal girls during the Goal Launch.

Global Goals

Last year Standard Chartered was among the founding partners of Project Everyone, a UN initiative which raised awareness of the United Nations Global Goals. Through the Project Everyone initiative, seven billion people were reached in seven days. The burst of activity was designed to highlight the Goals during the period and beyond.

In Kenya, we partnered with various Radio and TV stations as well as Telecom

Sustainability Review (Continued)

Investing in communities (Continued)

companies to communicate the Global Goals. We have now aligned our Employee Volunteering program to the United Nations Global Goals.

Under the Project Everyone initiative 193 world leaders committed to achieving the 17 Global Goals which are designed to end extreme poverty, fight inequality & injustice and fix climate change among others.

Financial education

Financial education is a critical life skill that builds financial knowledge, skills and attitudes which allow individuals to make informed and effective financial decisions. Research identifies lack of financial understanding as a key barrier to financial inclusion especially among youth. We define financial capability as the combination of knowledge, skills, attitudes and ultimately behaviours that translate into sound financial decisions and appropriate use of financial services.

Financial education is a key driver of financial capability and provides individuals with skills to take control of their finances and to protect themselves against predatory banking practices.

This is why we are committed to building financial capability among youth through Financial Education for Youth (FE4Y) and small and micro businesses through Education for Entrepreneurs (E4E). We aim to influence behavioural change and engrain financial responsibility at an early age.
In 2015, through Employee Volunteering, we reached 7,896 through FE4Y and 117 small and micro businesses though E4E.

Employee Volunteering

We encourage our employees to share their skills to support the successful delivery of our programmes, and to contribute to their communities. Every employee is entitled to three days of paid volunteering leave annually. In 2015, through the Employee Volunteering programme, our staff spent a total of 1,924 days supporting various community initiatives across the country. We believe that when our employees share time, skills, knowledge and experience on a cause that is close to their hearts, they help the Company make a real and tangible difference in our local communities. We place a premium on skills-based volunteering. Skills based volunteering enables us to leverage our skill-sets to help our communities especially in financial education, mentorship, coaching etc.

Rugby

The Company sponsored Impala Rugby Academy under-13 team to a two weeks tour of the United Kingdom to take part in the Standard Chartered TourAid Festival of Rugby 2015. The tour is part of the wider rugby partnership between Standard Chartered Bank and Impala Rugby Academy established in 2012. Under the programme, the academy uses rugby to positively influence youth in the community around Impala Club. Through rugby, the programme provides a pathway for the community youth from strained socio-economic circumstances to support the development of key life skills. We are committed to popularising rugby among the under-privileged children to enable them play rugby and pursue studies and life skills. Our support for youth development rugby is also designed to help the Kenya Rugby Union build a stable feeder system for the national team.

Standard Chartered Trophy

The Company sponsored employees of Postal Corporation to a fully paid 4-day trip to Liverpool Football Club (FC) at Anfield to represent Kenya at the Standard Chartered Trophy Finals. Postal Corporation took part in the corporate 5-aside knock-out challenge where they finished second to South Korea. Other previous winners include Pan Africa Insurance and Standard Media Group who won the local event in 2013 and 2014 respectively.

A Standard Chartered member of staff engages students during a financial education training.

Sustainability Review (Continued)

Investing in communities (Continued)

Peter Gitau, Standard Chartered Sports Chairman handing over Rugby Kits to Impala under-13 team.

L. Manjang, Hon. G. Moi (Centre) and Dr. Njoroge CBK Governor prepare for the Standard Chartered Nairobi Marathon 2015 race.

The Standard Chartered Trophy is held as part of the partnership between Standard Chartered Group and Liverpool FC.

This follows the signing of a sponsorship deal between Standard Chartered Bank and Liverpool FC in September 2009, the largest commercial agreement in Liverpool's history. The agreement, which started in July 2010 has seen the Standard Chartered's name and logo appear on the Liverpool shirt.

Through the partnership with Liverpool FC, the Company offers exclusive engagement opportunities to customers in the Commercial Banking and Corporate and Institutional Banking segments. This is a once-in-a-life-time experience for any football fan and we are delighted to be giving our clients and the media the opportunity to visit Anfield.

2015 Standard Chartered Trophy Winners - Postal Corporation of Kenya.

Board of Directors

Anne Mutahi
Chair to the Board
Anne was appointed to the Board on 24 February 2009 and appointed Chair to the Board in May 2013. She has vast experience in the financial sector having worked for various financial institutions including Middle East Bank, ABN AMRO Bank, Citibank and Jitegemee Trust Limited where she recently served as the Chief Executive Officer. Age 55.

Lamin Manjang
Managing Director & Chief Executive Officer
Lamin was appointed to the Board on 1 March 2014. He has over 16 years banking experience with Standard Chartered Bank across Africa and the Middle East. He has also been the CEO in Oman, Uganda and Sierra Leone and was responsible for the overall growth and development of the Bank's business in those countries. Age 52.

Chemutai Murgor
Executive Director, Finance
Chemutai joined the Board on 1 March 2007 after being appointed to the position of Finance Director. She has been with the Bank for 15 years. She has wide experience in finance having worked previously as the Head of Finance as well as Head of Business Finance. She has also held various senior positions at Deloitte & Touche both in Kenya and the United Kingdom. Age 46.

Nancy Oginde
Board Secretary
Nancy was appointed to the Board on 1 March 1999 as Secretary to the Board. She is an Advocate of the High Court of Kenya and served as a resident magistrate before joining the Bank. Age 55.

Benjamin Dabrah
Non-Executive Director
Benjamin was appointed to the Board on 28 May 2015. He has vast experience in the areas of Risk, Credit, and Leadership. He previously worked as Managing Director of Barclays Bank of Ghana, leading remarkable turnaround from loss-making to most profitable Bank in the country within 3 years. Age 44

Board of Directors

Les Baillie
Non-Executive Director
Les was appointed to the Board on 5 August 2010. He is a professional financial manager with over 21 years experience at Director level with a broad range of companies within the mobile industry in the UK and Kenya. Previous senior appointments include Chief Financial Officer of Safaricom Limited and Chief Investor Relations Officer at Safaricom Limited. Age 61.

Patrick Obath
Non-Executive Director
Patrick was appointed to the Board on 24 January 2012. He has vast experience in change management, strategy, financial management and controls, turnarounds, governance and business risk. He is well versed in health, safety and environment management systems and processes. He served as the Chairman of the Kenya Private Sector Alliance (KEPSA) and a director at East African Business Council, Africa Alliance Capital and Kenya Power. He is a Managing Consultant at Eduardo and Associates. Previous appointments include Managing Director at Shell East Africa. Age 61.

Kariuki Ngari
Non-Executive Director
Kariuki was appointed to the Board on 24 February 2009. He joined the Bank in January 2009 as Head of Consumer Banking, Kenya and was appointed Head of Consumer Banking Africa on 1 April 2013. During 2015 he was appointed Global Head of Client Relationship Strategies of the Bank. As a result he became a Non Executive Director. Before his appointment to the Board of Standard Chartered Bank Kenya Limited, he was the Consumer Banking Director at Barclays Bank of Kenya Limited and prior to that the Head of Retail Performance. Age 49.

Kaushik Shah
Non-Executive Director
Kaushik was appointed to the Board on 19 February 2004. He is a Director, Safal Group East Africa as well as the Kenya Association of Manufacturers. He sits on the Board of Bahari Insurance Brokers Limited and Mwanzi Road Development Limited, among others. Age 63.

Executive Committee

Lamin Manjang
Chief Executive Officer
Lamin has over 17 years banking experience with Standard Chartered Bank across Africa and the Middle East. Prior to his appointment as CEO Kenya and East Africa, he was the CEO of Standard Chartered Bank Oman. He has also been the CEO in Uganda and Sierra Leone.

George Akello
Chief Risk Officer
George has been with the Bank for 18 years. He started his career in public accounting practice before joining the Bank. He has held senior positions in Group Audit, Wholesale & Retail Banking Credit and has had wide experience and exposure working in Africa and Asia.

Chemutai Murgor
Chief Finance Officer
Chemutai joined the Bank 15 years ago. She has wide experience in finance having worked previously as the Head of Finance as well as Head of Business Finance. She has also held senior positions at Deloitte & Touche both in Kenya and the United Kingdom.

Fred Michuki
Head of Commercial Banking
Fred joined the Bank in 2000. He has extensive experience in Corporate Banking and Financial Markets. Prior to his appointment he was the Corporate Finance Executive Director for East Africa. He began his working career at Citibank N.A. where he worked for 6 years as the Head of Forex Trading.

Nancy Oginde
Head of Legal & Company Secretary
Nancy is an Advocate of the High Court of Kenya and a Registered Company Secretary. She has served the Bank in various capacities and is currently the Head of Legal East Africa and Company Secretary Kenya.

Olga Arara-Kimani
Head of Corporate Affairs and Brand & Marketing
Olga joined the Bank in 2014. Her career spanning 20 years has centred on Marketing, Business and Product Development and IT. Prior to joining the Bank, she worked in several multinational firms overseeing the commercial and digital marketing functions.

Tejinder Singh
Head of Corporate and Institutional Banking
Tejinder was appointed Head of CIB for Kenya & East Africa in 2015. Prior to the appointment, was the Head, Corporate and Institutional Clients, at Standard Chartered Bank Ghana. He has held several roles within the Bank including Head of Financial Institutions in Malaysia. He has also worked in India, Sri Lanka and Nepal.

Executive Committee

David Idoru
Head of Retail Banking
David was appointed to the current role in 2015. Previously was the Group Program Director, SCB Way based in Singapore. He also served as the General Manager, Integrated Distribution, East Africa(Kenya, Uganda & Tanzania)during which he was responsible for Branch Banking, mobile, online banking & contact centers, based in Nairobi-Kenya. He has also worked in Uganda and the United Kingdom.

Rebecca Kaggwa
Head of Compliance
Rebecca has extensive experience in Standard Chartered Bank, having joined the Bank as Head of Internal Control in 1994. She has held various positions within the Bank including Head Africa Finance Shared Services Centres, Executive Director Finance, Head of Business Technology (renamed Technology & Operations), and Company Secretary, Standard Chartered Bank, Uganda.

David Mwindi
Head of Audit
David joined the Bank in 2011 having previously worked for Barclays Bank, KPMG Kenya , PwC and Strathmore University. He has 14 years experience in the finance sector. He is a Certified Public Accountant of Kenya and a Certified Internal Auditor. He is also a member of the Professional Standards Committee of the Institute of Certified Accountants of Kenya (ICPAK).

Florence Nyokabi
Head of Human Resources
Florence is a seasoned HR practitioner with a wealth of experience gained in the Financial and Broadcasting sectors. Prior to joining the Bank in 2014, she worked at KPMG Kenya, NIC Bank and Kenya Television Network (KTN).

Peter Gitau
Chief Information Officer
Peter was appointed to the role in 2013. He joined the Bank in 2002 in Group Internal Audit (GIA). He has held a number of leadership positions in GIA and was the Regional Head of Group Audit Africa before he relocated to Singapore in December 2006. In Singapore Peter held a number of roles including Global Head Controls, Head Risk and Standardisation and Head Basel, Risk & Integrations.

Jane Kimemia
Head of Wealth Management
Jane joined the Bank 7 years ago. She was previously the General Manager in charge of Priority and International Banking. She has 19 years experience driving business performance in various roles and segments in the banking sector. Her speciality is in General business management with extensive experience in managing the propositions for High Value clientele. She earlier worked for Barclays Bank for 12 years.

Kennedy Mubita
Head of Transaction Banking
Kennedy was appointed MD and Head of Transaction Banking for Kenya and East Africa in November 2015. Prior to moving to Kenya he worked for Standard Chartered in the same capacity for Ghana and West Africa. He has a wealth of experience in the banking sector and has worked in various countries including Zambia, Tanzania and DRC

David Luusa Head
Head of Financial Markets
David has worked with Standard Chartered for 13 years and has broad experience across Corporate Banking and Financial Markets. Prior to his current appointment in May 2015, David led the East Africa Financial Markets Sales team, collaborating with our Corporates and Institutions team to deliver client solutions across the region.

The Board and Statutory Information

Directors

A. Mutahi	Chair to the Board
L. Manjang*	Chief Executive Officer
K. Shah**	
C. Murgor	
K. Ngari	
L. Baillie**	
P. Obath	
B. Dabrah	(Appointed 28 May 2015)
R. Bairstow***	(Resigned 13 August 2015)

*Gambian ** British ***South African

Secretary

N.N. Oginde
(CPS No. 1139)
StandardChartered@Chiromo
48 Westlands Road
P.O. Box 30003
00100 Nairobi GPO.

Auditors

KPMG Kenya
8th Floor, ABC Towers
ABC Place, Waiyaki Way
P.O. Box 40612
00100 Nairobi GPO.

Registered Office

StandardChartered@Chiromo
48 Westlands Road
P.O. Box 30003
00100 Nairobi GPO.

Registrars and Transfer Office

Custody & Registrars Services Group (C&R)
6th Floor, Bruce House
Standard Street
P.O. Box 8484
00100 Nairobi GPO.

Board Committees

Board Audit Committee

Members

L. Baillie	Chairman
K. Shah	
P. Obath	
N. Oginde	Secretary
C. Murgor*	
D. Mwindi*	Head of Internal Audit
R. Kaggwa*	Head of Compliance
KPMG Kenya*	

*By invitation.

Board Committees (Continued)

Board Risk Committee

Members

K. Shah	Chairman
L. Baillie	
P. Obath	
G. Akello*	Country Chief Risk Officer
L. Manjang	
N. Oginde	Secretary
R. Bairstow*	(Resigned 13 August 2015)
C. Murgor*	

*By invitation.

Board Credit Committee

Members

K. Shah	Chairman
L. Baillie	
P. Obath	
L. Manjang*	
G. Akello*	Country Chief Risk Officer
N. Oginde	Secretary
R. Bairstow*	(Resigned 13 August 2015)
C. Murgor*	
T. Singh*	

*By invitation.

Board Nomination, Evaluation and Remuneration Committee

Members

A. Mutahi	Chairperson
L. Baillie	
L. Manjang	
F. Nyokabi	
N. Oginde	Secretary

Asset and Liability Committee (ALCO)

Members

L. Manjang	Chairman
T. Singh	
C. Murgor	
G. Akello	
D. Idoru	
D. Luusa	Secretary

Executive Committee

Members

L. Manjang	Chairman
D. Idoru	
T. Singh	
C. Murgor	
D. Luusa	
F. Nyokabi	
P. Gitau	
D. Mwindi	
N. Oginde	
G. Akello	
O. Arara-Kimani	
R. Kaggwa	
F. Michuki	
J. Kimemia	
K. Mutiba	

Report of the Directors

For the year ended 31 December 2015

The directors are pleased to submit their report together with the audited financial statements for the year ended 31 December 2015 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which governs disclosure of the state of affairs of the Company and its subsidiaries.

1. Activities

The Group is engaged in the business of banking and provision of related services. It is licensed under the Banking Act and is regulated by the Central Bank of Kenya.

2. Results

The results for the year are set out in the attached financial statements on pages 48 to 113.

3. Dividends

The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting for approval, the payment of a final dividend of KShs 12.50 for every ordinary share of KShs 5.00. One interim dividend of KShs 4.50 was declared on 25 November 2015 and paid on 11 January 2016.

This will bring the total dividend for the year to KShs 17.00 (2014 – KShs 17.00) per ordinary share.

The Board has also resolved to recommend to the shareholders at the forthcoming Annual General Meeting the payment of a final dividend of KShs 84,690,411 on the non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares. An interim dividend of KShs 83,309,589 was declared on 25 November 2015 and paid on 11 January 2016. This will bring the total dividend for the year to KShs 168,000,000 (2014 – KShs 168,000,000).

Dividends on the preference shares are paid at the rate of 6% per annum on the issue price of KShs 50.00 per share.

The dividends will be payable to shareholders registered on the Company's Register at the close of business on 22 April 2016 and will be paid on or after 27 May 2016. The Register will remain closed on 25 April 2016 for the preparation of dividend warrants.

Bonus Shares

The directors recommend, subject to regulatory approvals and that of shareholders, to issue bonus shares in the proportion of 1 ordinary share for every 9 fully paid up ordinary shares then held, to the shareholders registered at the close of business on 22 April 2016.

4. Directors

The directors who served during the year up to and including the date of this report are set out on pages 34 and 35.

The directors are subject to periodic re-appointment and a number of directors will be seeking re-election subject to regulatory approval.

5. Auditors

The Company's auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to Section 24(1) of the Banking Act.

6. Approval of financial statements

The financial statements were approved by the Board of Directors on 23 March 2016.

BY ORDER OF THE BOARD

N.N. Oginde
Company Secretary

Date: 23 March 2016

Statement on Corporate Governance

For the year ended 31 December 2015

As a key player in the banking industry, Standard Chartered Bank Kenya Limited ("the Company") recognises the responsibility to practise high standards of corporate governance and to contribute to the promotion of an environment where such are upheld and practiced by all industry players. Exemplary governance is key to the Company's long-term success, enabling us to deliver sustainable shareholder value.

The Company has an integrated approach to governance which ensures that the Company is effectively managed and controlled, in line with the strategy, and with regard to the requirements of the key stakeholders. The Company's culture and values are deeply embedded within the organisation, and are regularly reinforced and updated. The Code of Conduct review and recommitment by staff is an annual requirement to ensure that the key principles underpin the conduct of all employees in their dealings with one another, clients, suppliers and other stakeholders. The last such refresh was in September 2015.

The values are embedded as guidelines for the expected behaviour of all employees and also form part of the contractual obligations for all the main suppliers in the conduct of all businesses in as far as it relates to the Company but also as expected of all ethical businesses.

Highlights for 2015

- Company's restructuring which was implemented in the third quarter of 2015. The new structure created a 'One Bank' business with three customer segment groups – Corporate and Institutional Banking, Commercial Banking and Retail Banking;
- Changes in directors and senior management to strengthen the business;
- Review and re-launch of the Operational Risk Framework and training for the Board and all staff on the new requirements;
- Creation of the Emerging Leaders Pool and focus on the High Performers (HIPOs) as identified in the business;
- Directors training on corporate governance, board evaluation and risk and financial management;
- Maintained balance in pursuing growth opportunities in tandem with appropriate governance systems, controls, processes and information flows;
- Overall winner in the Banks category for IFRS reporting in the 2015 Excellence in Financial Reporting (FiRe) Awards which is jointly promoted by the Institute of Certified Public Accountants in Kenya, the Capital Markets Authority and the Nairobi Securities Exchange; and
- 2nd Runners up in the Environment and Social Reporting category in the 2015 FiRe Awards.

The Board

The Board is responsible for providing leadership and oversight by setting the strategic direction of the Company and monitoring the management for effectiveness. It is the primary decision-making body for all matters considered as material to the Company. The Board has the appropriate mix of skills, knowledge and experience to perform its role effectively. The areas of expertise of the directors are as follows:

Name	Areas of expertise
A. Mutahi	Financial Services
K. Shah	Manufacturing and Financial Management
L. Baillie	Telecommunications and Financial Management
P. Obath	Oil industry, Private Sector and Financial Management
B. Dabrah	Banking
K. Ngari	Banking
L. Manjang*	Banking
C. Murgor*	Banking and Financial Management
R. Bairstow*++	Banking

*Executive Director
++ Resigned 13 August 2015

There exists a cordial working relationship between the non-executive and executive directors, characterised by a healthy level of challenge and debate. The executive team ensures that the non-executive directors receive comprehensive reports on the business as well as on the economic and competitive landscape.

The non-executive directors have access to information and management staff at all levels.

The Board continues to review the matters reserved for the Board, key among them being the review and tracking of the Company's strategy, financial performance, approving any changes to capital, ensuring there is a sound system of internal controls and risk management, delegation and monitoring of authorities for expenditure, lending, people management and compensation, material outsourcing and any other significant commitments.

The Standard Chartered Bank Kenya Board

The Board has eight members; the Chair, four non-executive directors - four of whom are independent directors. Executive directors are three. The Company Secretary is a member of the Institute of Certified Public Secretaries (ICPSK).

The Board has a good mix of skills and experience to drive the business forward whilst maintaining a tight control on risk management and good corporate governance. The Board has the primary responsibility for ensuring adherence to the code of corporate governance. The Board has a board charter publicly available to investors. The Board members are required to disclose any potential area of conflict that may compromise or undermine their position or service as a director. Mr. Robin Bairstow, an Executive Director, resigned from the Board on 13 August 2015 to pursue other interests.

Induction and ongoing development

The Company has a very comprehensive and tailored induction process for new directors covering its business operations and in particular the risk and compliance functions, as well as the legal, regulatory and other personal obligations of a director of a listed company. The continuous development programme is needs-based and is designed for individual directors or for the Board as indicated by the annual evaluation process. The Board Committees also receive specialist presentations on key issues where required. The Board and Committees received training in 2015 on corporate governance, board evaluation, market risk, regulatory changes, information technology, macroeconomic changes in the business environment and the general banking environment among others.

The directors are kept appraised on all regulations and laws that are enacted which may affect the operations of the Company.

The directors are advised of the legal, regulatory and other obligations of a director of a listed company on an ongoing basis. The directors also receive both internal and external training on corporate governance. The directors have access to independent professional advice to enable them to discharge their duties.

Whistle Blowing Policy
All employees are encouraged to report alleged irregularities of a general, operational and financial nature in the Company to the directors or designated official through the "Speak Up" portal.

Roles of the Board Chair and Chief Executive Officer
The separate roles of the Board Chair and the Chief Executive Officer are clearly defined in the Board Charter which has been approved by the Board.

Except for direction and guidance on general policy, the Board has delegated the conduct of the day-to-day business to the Chief Executive Officer and the Executive Committee.

Independent non-executive directors
The majority of the non-executive directors are independent and free of any business relationship or other circumstances that could materially interfere with the exercise of objective or independent judgment. In determining their independence, the directors are required to declare any interests that may give rise to a potential or perceived conflict of interest on an ongoing basis.

Non-executive directors are appointed for an initial term of two years with an option for renewal.

The Board is made aware of the other commitments of the individual non-executive directors and is satisfied that largely, these do not conflict with their duties and time commitments as directors of the Company.

Succession planning
The Company has in place a succession plan for the directors which is updated regularly and also a plan to maintain a balance of critical skills on the Board of Directors.

The Board in 2015
The Board spearheaded the Company's restructuring in 2015. The Board held special meetings to discuss and approve the new structure and strategy.

The Board reviewed the Company's Internal Capital Adequacy Assessment Process (ICAAP) as required by the Prudential Guidelines.

The Effective Board
The Board Charter and structure is designed to encourage open, transparent and constructive dialogue amongst the members. In addition to this, the Board has a carefully structured Board agenda. The Board held special strategy sessions in August and November 2015 to review, discuss and agree the Company's strategy. There was sufficient time to examine the emerging risks and opportunities in detail. The Board invited a strategy expert and an Information and Communications Technology (ICT) expert for discussions on the economic environment and the likely impact of the rapid development in the ICT sector.

The non-executive directors are fully supported by the Company Secretary who provides legal advice and guidance to the directors. Further, the Board is entitled to seek independent professional advice at the Company's expense.

Board effectiveness evaluation
The annual Board evaluation was conducted in February 2015 in a process led by the Chairperson and supported by the Company Secretary. The evaluation entailed a self-evaluation for each director, and of the overall Board interactions, conduct of business meetings and scope of control exercised by the directors as well as evaluation of the functioning of the Board Committees. Following the evaluation exercise, the directors identified areas that required further consideration by the Board and these issues will be actioned. Some have been incorporated in the rolling agenda while others will be addressed through training and board presentations.

The Board continues to operate effectively. There is a high level of engagement from the non-executive directors and meaningful interaction with the executive directors and the senior management.

Board meetings and attendance
The full Board meets regularly, with at least four formal meetings a year and two strategy sessions. A formal schedule of matters reserved for discussion is maintained. The directors receive appropriate and timely reports to enable them to exercise full and effective control over strategic, financial, operational, risk, compliance and governance issues.

A careful balance of formal and informal meetings throughout the year exists and there is an atmosphere of cordial relations. This creates an environment that encourages challenge, consultation, information sharing, innovative thinking and openness in communication. The Board also has opportunities to interact with the staff.

The directors have full access to corporate information and sufficient detail to enable a productive and open discussion. There is diversity in the Board which ensures that the level of debate is both detailed and of a high technical standard.

The following table shows the number of Board meetings held during the year and the attendance by the directors:

	Scheduled 5	Ad Hoc 3*
A. Mutahi (Chair to the Board)	5/5	3/3
L. Manjang	5/5	3/3
K. Shah	5/5	3/3
P. Obath	5/5	3/3
C. Murgor	5/5	3/3
K. Ngari	4/5	3/3
L. Baillie	4/5	3/3
R. Bairstow (Resigned 13 August 2015)	3/3	2/2
B. Dabrah (Appointed 28 May 2015)	2/3	0/1

*The ad hoc meetings were held to discuss the Central Bank of Kenya annual supervision report and related matters.

Board Committees
The Board has six Committees with specific delegated authorities. These are the Board Audit Committee, the Board Risk Committee, the Board Credit Committee, the Board Nomination, Evaluation

and Remuneration Committee, the Asset and Liability Committee (ALCO), and the Executive Committee. The respective Chairperson presents their reports to the Board at each scheduled meeting.

Standard Chartered Bank Kenya Limited Board					
Primary Committees					
Board Audit Committee	Board Risk Committee	Board Credit Committee	Board Nomination, Evaluation and Remuneration Committee	Asset and Liability Committee	Executive Committee
Oversight and review of financial, audit and internal control issues.	Oversight and review of risks including credit, market, capital and liquidity.	Oversight of the Company's Credit Policy and all lending undertaken by the Company in line with the established risk appetite.	Oversight and review to ensure the Board composition has the optimum balance of skills, knowledge and experience. General oversight over the staff remuneration policies and review of Board remuneration.	Ensure the Company balance sheet is managed in accordance with regulatory requirements and Company policies.	Assist the CEO in the oversight and day-to-day management as well as providing general direction for the Company.

Current membership of the Board committees

Members	Board Audit Committee	Board Risk Committee	Board Credit Committee	Board Nomination, Evaluation and Remuneration Committee
A. Mutahi				Chair
K. Shah	Member	Chair	Chair	
L. Baillie	Chair	Member	Member	Member
P. Obath	Member	Member	Member	
L. Manjang		Member		Member
C. Murgor		Member	Member	

Chair Member

Details of these committees and membership are indicated below.

Board Audit Committee Members

L. Baillie	Chairman
K. Shah	
P. Obath	
N. Oginde	Secretary
C. Murgor*	
G. Wamwati*+	Head of Internal Audit
D. Mwindi*++	Head of Internal Audit
R. Kaggwa*	Head of Compliance
KPMG Kenya*	

* By invitation
+Transferred 1 November 2015
++Appointed 1 November 2015

Highlights for 2015

The Committee:

- continued to robustly monitor the controls in place for management of capital and liquidity positions, especially in line with the regulatory requirements;
- closely monitored audit findings and the actions thereon from the external and internal auditors;
- review and approval of the financial statements of the Company for each quarter; and
- ensure action and follow up on all compliance monitoring reports.

Role and function

The Committee has a Charter that specifies the qualifications, responsibilities and procedures of the Committee including conduct of special investigations.

Financial reporting

The Committee reviews the integrity of the financial statements of the Company and its subsidiaries and recommends the statements for approval to the Board. The Committee considers management's recommendations in respect of impairment on loans and advances as well as other disclosure requirements.

Oversight of internal controls

The Committee regularly reviews and reports to the Board on the effectiveness of the Company's system of internal control. The Committee discusses the root causes of the issues reported by the audit team and reviews management's responses and follow-up activities.

Internal and external audit reports

The Committee receives reports on the findings of the internal and external audits and tracks the actions on audit findings.

The Committee also reviews the proposed work plans for the Country Internal Audit and Compliance functions at the beginning of each year.

All the Committee members have relevant experience. The Board is satisfied that Mr. Les Baillie, as Chairman, has the relevant financial experience to lead the committee and that all other committee members have broad experience and sufficient knowledge of financial reporting and the attendant requirements.

The Committee receives regular reports from the Head of Internal Audit on internal audits, compliance and legal risks and on the assurance framework. The Head of Compliance also submits

reports on regulatory compliance. The Director in charge of Finance, Head of Internal Audit, Head of Compliance, the external auditors and the Business Heads are regularly invited to the meetings to provide reports or respond to issues as required. The non-executive directors hold meetings with the Head of Internal Audit without management to freely discuss issues arising from the audits and monitor progress on the audit plan for the year. The Audit committee also conducts special investigations as the need arises.

The Committee held four meetings in the year. Particular areas of focus in the year were:

- review of the enhanced regulatory reporting;
- review of audit reports;
- integrity of the Company's financial statements; and
- approval of the audit and compliance monitoring plans.

Attendance

Number of meetings scheduled in 2015		4
L. Baillie	(Chairman)	4/4
K. Shah		4/4
P. Obath		4/4

Board Risk Committee Members

K. Shah	Chairman
L. Baillie	
P. Obath	
G. Akello*	Country Chief Risk Officer
L. Manjang	
N. Oginde	Secretary
R. Bairstow* (Resigned 13 August 2015)	
C. Murgor*	

* By invitation

Highlights for 2015

- enhanced focus on emerging risks including capital, liquidity and market risk;
- comprehensive review of the Company's risk appetite;
- reviewed its membership and revised its rolling agenda to ensure all risks are reviewed by the Committee and;
- monitored the Company's capital adequacy and liquidity positions.

Role and function

Risk management

The Country Chief Risk Officer presents a report to the Committee at every scheduled meeting and the Committee discusses the major risks faced by the Company across the businesses. The Committee also reviews the Company's risk appetite periodically. The directors provide critical feedback to management.

The Committee reviews various risks, including operational risk, country risk, credit risk, liquidity risk, market risk, regulatory risk, legal risk, reputational risk and compliance risk.

The Committee is responsible for ensuring that there are written policies, procedures and processes for identifying and managing all risks within the Company.

The Committee receives reports on all aspects of risk management from the risk sub-committees and risk managers.

Capital and liquidity

The Committee maintained a clear focus on capital and liquidity in 2015. The Director in charge of Finance presents a report at every scheduled meeting and the members have an opportunity to consider the Company's capital and liquidity positions and the regulatory environment and expectations.

Attendance

Number of meetings scheduled in 2015		4
K. Shah	(Chairman)	4/4
L. Baillie		4/4
P. Obath		4/4

Board Credit Committee Members

K. Shah	Chairman
L. Baillie	
P. Obath	
L. Manjang*	
G. Akello*	Country Chief Risk Officer
N. Oginde	Secretary
R. Bairstow* (Resigned 13 August 2015)	
T. Singh* (Appointed 1 November 2015)	
C. Murgor*	

*By invitation

Highlights for 2015

- reviewed the overall lending policy of the Company; and
- reviewed the quality of the Company's loan portfolio to ensure compliance with requirements of the Prudential Guidelines.

Role and function

The Committee reviewed issues regarding industry concentration, loan impairment, liquidity and compliance. The Committee also reviewed the top country risks and the minutes of the Credit Approvals Committee.

Attendance

Number of meetings scheduled in 2015		4
K. Shah	(Chairman)	4/4
L. Baillie		4/4
P. Obath		4/4

Board Nomination, Evaluation and Remuneration Committee Members

A. Mutahi	Chairperson
L. Baillie	
L. Manjang	
F. Nyokabi	
N. Oginde	Secretary

Highlights for 2015

- reviewed the salary survey details and the general policy and banding for the entire Company;
- adopted an enhanced board evaluation process;
- interviewed senior personnel; and
- succession planning of the Board.

Role and function

The Committee's mandate is to regularly review the structure, size and composition of the Board, make recommendations to the Board on suitable candidates to fill board vacancies, review and recommend the remuneration levels for the non-executive directors.

The Committee reviewed the annual increases for staff salaries and variable compensation awards for eligible staff. The Committee believed that it was appropriate to make these awards to those that contributed to the continued success of the Company.

The Committee adopted an online evaluation process, which is undertaken by Lintstock Limited, a company engaged by the Standard Chartered Group. The online process helps to synthesise the reports more succinctly for action taking.

Asset and Liability Committee (ALCO)

Members	
L. Manjang	Chairman
T. Singh	
R. Bairstow*	
C. Murgor	
G. Akello	
D. Idoru	
G. Makoko*/D. Luusa	Secretary

*Left the Company

Role and function

The Committee is charged with the responsibility of ensuring the effective implementation of balance sheet management policies, receive and review reports on liquidity, market risk and capital management and to review the deposit and asset pricing strategies in line with market fundamentals and regulatory guidelines.

The Committee meets once a month. The Chief Executive Officer, with the support of the Head of Financial Markets, presents the ALCO report to the Board at each scheduled meeting.

Executive Committee

Members	
L. Manjang	Chairman
D. Idoru	
T. Singh	
C. Murgor	
D. Luusa	
F. Nyokabi	
P. Gitau	
D. Mwindi	
N. Oginde	
G. Akello	
O. Arara-Kimani	
R. Kaggwa	
F. Michuki	
J. Kimemia	
K. Mutiba	

Role and function

The Executive Committee is the link between the Board and management. The Committee assists the Chief Executive Officer in the day-to-day management of the Company. The Committee is responsible for general oversight and the implementation of operational plans and the annual budgets. It is also responsible for the periodic review of operations, strategic plans, ALCO strategies, credit proposals, identification and management of key risks and opportunities. The Committee also reviews and approves guidelines for employees' remuneration.

The Committee meets at least twice a month. A report on the Executive Committee's activities is presented to the Board by the Chief Executive Officer at each scheduled meeting.

Directors' remuneration

In determining remuneration for non-executive directors, we carry out regular surveys on the market rates for non-executive directors. Based on the findings of such surveys, remuneration of directors is reviewed to ensure that the levels of remuneration and compensation are appropriate. An annual evaluation of directors' performance is carried out to measure performance of individual directors and of the Board as a whole. The non-executive directors are paid annual fees and a sitting allowance for meetings attended. Information on the aggregate amount of emoluments and fees paid to directors is disclosed in Note 14 of the financial statements.

Staff remuneration

The performance, reward and benefits arrangements support and drive business strategy and reinforce organisational values. The Company rewards sustained performance over time and decisions on pay are strongly based on differentiation both for sustained performance and for behaviours.

There is a robust performance review for employees based on individual performance throughout the year and the Company's performance. Employees are required to set their own objectives which must align to the Company's objectives. Individual employee's performance is reviewed against their set objectives at mid-year and at the end of the year to inform the annual review of compensation.

Directors' shareholding

One director holds 2,625 shares in the Company. The other directors do not hold any shares in the Company.

Conflicts of interest

All directors and managements are under a duty to avoid conflicts of interest. This entails not engaging, directly or indirectly in any business that competes or conflicts with the Company's business. The Company has established a robust process requiring directors to disclose outside business interests before they are entered into. Any potential or actual conflicts of interest are reported to the Company Secretary.

The provisions on conflict of interest as outlined in the Prudential Guidelines are embodied in the directors' letters of appointment. A copy of the Central Bank of Kenya's Code of Conduct is also provided to the directors. The Company has a comprehensive policy on Conflicts of Interest and staff as well directors are required to comply with it.

Internal controls

The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximise profitable business opportunities, manage and ensure compliance with applicable laws and regulations and enhance resilience to external events.

The Company has a process in place to ensure that any changes in legislation are captured and monitored effectively. The Legal Department reviews and undertakes a comprehensive gap analysis once the laws are in place and advises the impact of the changes to the Company. The Compliance Department ensures

that the business units put in place controls to ensure compliance with the various laws and regulations. The Compliance Department also performs compliance monitoring reviews and submits its findings to the Board Audit Committee.
The effectiveness of the Company's internal control system is reviewed regularly by the Board through a Management framework and the Internal Audit function.

The Internal Audit function monitors compliance with policies and standards and the effectiveness of internal control structures of the Company through its programme of business audits. The work of the Internal Audit function is focused on the areas of greatest risk as determined by a risk-based assessment methodology. The Internal Audit function reports to the Board Audit Committee and the Country Operational Risk Committee (CORC).

The Company's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk, including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management framework that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

The performance of the Company's business is reported to management and the Board. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

Code of Conduct

The Company has a Code of Conduct, relating to the lawful and ethical conduct of business which is supported by the Company's core values. All directors, management and employees are required to observe the Code and are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators. The Code of Conduct was refreshed in the year in response to the rising scrutiny around Company ethics.

The directors and management of the Company also comply with the Central Bank of Kenya Code of Conduct as set out in the Prudential Guidelines.

Insider trading

The Company has a policy on insider trading which is strictly observed. Directors, management and staff are aware that they ought not to trade in the Company's shares while in possession of any insider information not available to the public or during a closed period. The closed period is the period between 1 January until the publication of the full year results, and 1 July until the publication of the half year results. The Dealing Policy requires specific staff to declare any dealings with securities all year round.

Going concern

The Board confirms that it is satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

Relations with shareholders

The Board recognises the importance of good communications with all shareholders. The Annual General Meeting (AGM) as well as the published annual report is used as an opportunity to communicate with all shareholders. The Company always gives shareholders the 21 days notice of the AGM as provided for in the Kenyan Companies Act and shareholders are encouraged to submit questions and also appoint proxies to represent them where they are unable to attend. Ad hoc shareholder requests for information are handled on an on-going basis and also on the floor of the AGM. The Board uses electronic means to communicate with shareholders and shareholders are encouraged to visit *www.sc.com/ke* for general information on the Company as well as annual reports.

In upholding and protecting shareholders' rights, the Board recognises that every shareholder has a right to participate and vote at the general shareholders meeting. The Board also invites shareholders to seek clarity on the Company's performance in general meetings.

The Board has engaged the services of a professional Registrar to allow for quick resolutions for all shareholder queries and smooth transfer of shares.

Statement of Directors' Responsibilities

The directors are responsible for the preparation and presentation of the financial statements of Standard Chartered Bank Kenya Limited set out on pages 48 to 113 which comprise the consolidated and Company statements of financial position as at 31 December 2015, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated and Company statement of changes in equity, and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the operating results of the Group for that year. It also requires the directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Company and of its operating results.

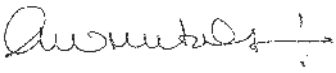
The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The directors have made an assessment of the Group and the Company's ability to continue as a going concern and have no reason to believe the Group and Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

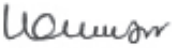
The financial statements, as indicated above, were approved by the Board of Directors on 23 March 2016 and were signed on its behalf by:

Director: A. Mutahi



Director: L. Manjang

Director: C. Murgor



23 March 2016

Independent Auditors' Report

To the Members of Standard Chartered Bank Kenya Limited

Report on the financial statements

We have audited the Group financial statements of Standard Chartered Bank Kenya Limited set out on pages 48 to 113 which comprise the consolidated and Company statement of financial position as at 31 December 2015, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated and Company statement of changes in equity, and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As stated on page 46, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the consolidated and Company financial position of Standard Chartered Bank Kenya Limited at 31 December 2015, and the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act.

Report on other legal requirements

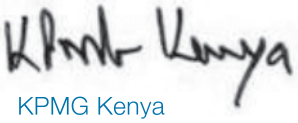
As required by the Kenyan Companies Act we expressly report to you, based on our audit, that:

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

(ii) In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

(iii) The statement of financial position of the Company is in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Jacob Gathecha - P/1610.



KPMG Kenya
Certified Public Accountants
P.O. Box 40612
00100 Nairobi GPO.

23 March 2016

Consolidated Income Statement

For the year ended 31 December 2015

	Note	2015 KShs '000	2014 KShs '000
Interest income	8	22,608,602	21,742,417
Interest expense	9	(5,007,140)	(4,441,981)
Net interest income		17,601,462	17,300,436
Fee and commission income	10	4,535,263	4,580,546
Fee and commission expense	10	(385,851)	(710,043)
Net fee and commission income		4,149,412	3,870,503
Net trading income	11	2,598,054	2,628,062
Other operating income	12	465,426	1,788,015
OPERATING INCOME		24,814,354	25,587,016
Staff costs	13	(6,218,282)	(5,767,259)
Premises and equipment costs	13	(790,171)	(806,172)
General administrative expenses		(3,084,908)	(2,628,909)
Depreciation and amortisation	13	(969,414)	(991,265)
OPERATING EXPENSES		(11,062,775)	(10,193,605)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		13,751,579	15,393,411
Net impairment losses on loans and advances	22 (b)	(4,591,647)	(1,047,430)
PROFIT BEFORE TAXATION	14	9,159,932	14,345,981
INCOME TAX EXPENSE	15	(2,817,505)	(3,909,801)
NET PROFIT FOR THE YEAR		6,342,427	10,436,180
BASIC AND DILUTED EARNINGS PER SHARE - (KShs)	16	19.97	33.21

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2015

	Note	2015 KShs '000	2014 KShs '000
NET PROFIT FOR THE YEAR		6,342,427	10,436,180
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains on retirement benefit obligations	36	(7,960)	7,200
Deferred tax on actuarial (losses)/gains on retirement benefit obligations	35 (a)	2,388	(2,160)
Revaluation surplus		–	229,784
Deferred tax on revaluation surplus	35 (a)	–	(62,245)
		(5,572)	172,579
Items that may subsequently be reclassified to profit or loss			
Change in fair value of available-for-sale investments		(401,575)	(68,125)
Deferred tax on change in fair value of available-for-sale investments	35 (a)	120,473	20,438
		(281,102)	(47,687)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		(286,674)	124,892
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,055,753	10,561,072

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2015

ASSETS	Note	2015 KShs '000	2014 KShs '000
Cash and balances with Central Bank of Kenya	18	14,240,581	15,383,312
Government and other securities held for trading	19	5,709,525	3,076,047
Derivative financial instruments	20	688,538	100,242
Loans and advances to banks	21	3,190,915	4,802,936
Loans and advances to customers	22 (a)	115,125,427	122,749,233
Investment securities	23	67,911,422	55,679,006
Tax recoverable		178,494	77,058
Other assets	24	2,645,363	2,523,551
Amounts due from group companies	25	17,857,239	11,004,805
Non-current assets held for sale	28	140,644	270,537
Property and equipment	29	3,124,400	3,399,132
Intangible assets	30	2,905,991	3,180,133
Prepaid operating lease rentals	31	246,908	249,832
TOTAL ASSETS		**233,965,447**	222,495,824
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	32	4,293,413	9,106,326
Deposits from customers	33	172,036,056	154,066,931
Derivative financial instruments	20	458,669	378,374
Tax payable		37,049	–
Other liabilities	34	5,491,512	4,458,293
Amounts due to group companies	25	10,355,723	13,359,389
Deferred tax liability	35 (a,c)	29,036	463,637
Retirement benefit obligations	36	12,204	4,700
TOTAL LIABILITIES		**192,713,662**	181,837,650
Shareholders' equity (Pages 52-53)			
Share capital	37	1,825,798	1,825,798
Share premium	37	7,792,427	7,792,427
Capital contribution reserve	37	1,866,484	1,904,915
Revaluation reserve	37	515,790	583,707
Fair value reserve	37	(172,831)	108,271
Statutory credit risk reserve	37	618,797	3,679,423
Retained earnings		24,856,136	20,814,449
Proposed dividends	17	3,949,184	3,949,184
TOTAL SHAREHOLDERS' EQUITY		**41,251,785**	40,658,174
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**233,965,447**	222,495,824

The financial statements set out on pages 48 to 113 were approved by the Board of Directors on 23 March 2016 and were signed on its behalf by:

Director	A. Mutahi		Director	C. Murgor	
Director	L. Manjang		Secretary	N. Oginde	

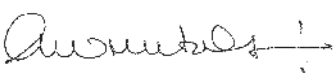
The notes set out on pages 57 to 113 form an integral part of these financial statements.

Company Statement of Financial Position

As at 31 December 2015

ASSETS	Note	2015 KShs '000	2014 KShs '000
Cash and balances with Central Bank of Kenya	18	14,240,581	15,383,312
Government and other securities held for trading	19	5,709,525	3,076,047
Derivative financial instruments	20	688,538	100,242
Loans and advances to banks	21	3,190,915	4,802,936
Loans and advances to customers	22 (a)	115,125,427	122,749,233
Investment securities	23	67,911,422	55,679,006
Tax recoverable		173,246	75,699
Other assets	24	2,640,939	2,524,836
Amounts due from group companies	25	17,890,777	11,004,805
Investment in subsidiaries	26	141,243	140,243
Non-current assets held for sale	28	140,644	270,537
Property and equipment	29	3,124,400	3,399,132
Intangible assets	30	2,905,991	3,180,133
Prepaid operating lease rentals	31	246,908	249,832
TOTAL ASSETS		**234,130,556**	222,635,993
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	32	4,293,413	9,106,326
Deposits from customers	33	172,036,056	154,066,931
Derivative financial instruments	20	458,669	378,374
Other liabilities	34	5,479,445	4,431,151
Amounts due to group companies	25	10,355,723	13,359,389
Amounts due to subsidiaries		543,240	368,888
Deferred tax liability	35 (b,d)	37,323	470,381
Retirement benefit obligations	36	12,204	4,700
TOTAL LIABILITIES		**193,216,073**	182,186,140
Shareholders' equity (Pages 54-55)			
Share capital	37	1,825,798	1,825,798
Share premium	37	7,792,427	7,792,427
Capital contribution reserve	37	1,866,484	1,904,915
Revaluation reserve	37	515,790	583,707
Fair value reserve	37	(172,831)	108,271
Statutory credit risk reserve	37	618,797	3,679,423
Retained earnings		24,518,834	20,606,128
Proposed dividends	17	3,949,184	3,949,184
TOTAL SHAREHOLDERS' EQUITY		**40,914,483**	40,449,853
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**234,130,556**	222,635,993

The financial statements set out on pages 48 to 113 were approved by the Board of Directors on 23 March 2016 and were signed on its behalf by:

Director A. Mutahi 

Director C. Murgor 

Director L. Manjang 

Secretary N. Oginde 

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

2015:	Note	Share capital KShs '000	Share premium KShs '000	Capital contribution reserve KShs '000	Revaluation reserve KShs '000	Fair value reserve KShs '000	Statutory credit risk reserve KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
At 1 January 2015		1,825,798	7,792,427	1,904,915	583,707	108,271	3,679,423	20,814,449	3,949,184	40,658,174
Net profit for the year		–	–	–	–	–	–	6,342,427	–	6,342,427
Other comprehensive income										
Re-measurement of retirement benefit obligations	36	–	–	–	–	–	–	(7,960)	–	(7,960)
Deferred tax on re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	2,388	–	2,388
Change in fair value of available-for-sale investments		–	–	–	–	(401,575)	–	–	–	(401,575)
Deferred tax on change in fair value of available-for-sale investments		–	–	–	–	120,473	–	–	–	120,473
Realised revaluation reserves on sale of property		–	–	–	(90,177)	–	–	90,177	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	27,053	–	–	(27,053)	–	–
Excess depreciation transfer		–	–	–	(6,847)	–	–	6,847	–	–
Deferred tax on excess depreciation transfer		–	–	–	2,054	–	–	(2,054)	–	–
Transfer from statutory credit risk reserve		–	–	–	–	–	(3,060,626)	3,060,626	–	–
Total other comprehensive income		**–**	**–**	**–**	**(67,917)**	**(281,102)**	**(3,060,626)**	**3,122,971**	**–**	**(286,674)**
Total comprehensive income for the year		**–**	**–**	**–**	**(67,917)**	**(281,102)**	**(3,060,626)**	**9,465,398**	**–**	**6,055,753**
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2014 paid		–	–	(81,242)	–	–	–	–	–	(81,242)
– 2015 accrual		–	–	42,811	–	–	–	–	–	42,811
Dividends paid:										
– Ordinary shares – Final 2014		–	–	–	–	–	–	–	(3,864,494)	(3,864,494)
– Preference shares – Final 2014		–	–	–	–	–	–	–	(84,690)	(84,690)
Dividends declared:										
– Ordinary shares – Interim 2015		–	–	–	–	–	–	(1,391,217)	–	(1,391,217)
– Preference shares – Interim 2015		–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed final dividends:										
– Ordinary shares	17	–	–	–	–	–	–	(3,864,494)	3,864,494	–
– Preference shares	17	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners		**–**	**–**	**(38,431)**	**–**	**–**	**–**	**(5,423,711)**	**–**	**(5,462,142)**
At 31 December 2015		**1,825,798**	**7,792,427**	**1,866,484**	**515,790**	**(172,831)**	**618,797**	**24,856,136**	**3,949,184**	**41,251,785**

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

2014:	Note	Share capital KShs '000	Share premium KShs '000	Capital contribution reserve KShs '000	Revaluation reserve KShs '000	Fair value reserve KShs '000	Statutory credit risk reserve KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
At 1 January 2014		1,825,798	7,792,427	1,888,873	450,223	155,958	1,323,070	18,119,239	4,650,813	36,206,401
Net profit for the year		–	–	–	–	–	–	10,436,180	–	10,436,180
Other comprehensive income										
Re-measurement of retirement benefit obligations	36	–	–	–	–	–	–	7,200	–	7,200
Deferred tax on re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	(2,160)	–	(2,160)
Change in fair value of available-for-sale investments		–	–	–	–	(68,125)	–	–	–	(68,125)
Deferred tax on change in fair value of available-for-sale investments		–	–	–	–	20,438	–	–	–	20,438
Realised revaluation reserves on sale of property		–	–	–	(43,128)	–	–	43,128	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	13,079	–	–	(13,079)	–	–
Revaluation surplus		–	–	–	229,784	–	–	–	–	229,784
Deferred tax on revaluation surplus	35	–	–	–	(62,245)	–	–	–	–	(62,245)
Excess depreciation transfer		–	–	–	(5,723)	–	–	5,723	–	–
Deferred tax on excess depreciation transfer		–	–	–	1,717	–	–	(1,717)	–	–
Transfer to statutory credit risk reserve		–	–	–	–	–	2,356,353	(2,356,353)	–	–
Total other comprehensive income		**–**	**–**	**–**	**133,484**	**(47,687)**	**2,356,353**	**(2,317,258)**	**–**	**124,892**
Total comprehensive income for the year		**–**	**–**	**–**	**133,484**	**(47,687)**	**2,356,353**	**8,118,922**	**–**	**10,561,072**
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2013 paid		–	–	(65,200)	–	–	–	–	–	(65,200)
– 2014 accrual		–	–	81,242	–	–	–	–	–	81,242
Dividends paid:										
– Ordinary shares – Final 2013		–	–	–	–	–	–	–	(4,482,813)	(4,482,813)
– Preference shares – Final 2013		–	–	–	–	–	–	–	(168,000)	(168,000)
Dividends declared:										
– Ordinary shares – Interim 2014		–	–	–	–	–	–	(1,391,218)	–	(1,391,218)
– Preference shares – Interim 2014		–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed final dividends:										
– Ordinary shares	17	–	–	–	–	–	–	(3,864,494)	3,864,494	–
– Preference shares	17	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners		**–**	**–**	**16,042**	**–**	**–**	**–**	**(5,423,712)**	**(701,629)**	**(6,109,299)**
At 31 December 2014		**1,825,798**	**7,792,427**	**1,904,915**	**583,707**	**108,271**	**3,679,423**	**20,814,449**	**3,949,184**	**40,658,174**

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2015

2015:	Note	Share capital KShs '000	Share premium KShs '000	Capital contribution reserve KShs '000	Revaluation reserve KShs '000	Fair value reserve KShs '000	Statutory credit risk reserve KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
At 1 January 2015		1,825,798	7,792,427	1,904,915	583,707	108,271	3,679,423	20,606,128	3,949,184	40,449,853
Net profit for the year		–	–	–	–	–	–	6,213,446	–	6,213,446
Other comprehensive income										
Re-measurement of retirement benefit obligations	36	–	–	–	–	–	–	(7,960)	–	(7,960)
Deferred tax on re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	2,388	–	2,388
Change in fair value of available-for-sale investments		–	–	–	–	(401,575)	–	–	–	(401,575)
Deferred tax on change in fair value of available-for-sale investments		–	–	–	–	120,473	–	–	–	120,473
Realised revaluation reserves on sale of property		–	–	–	(90,177)	–	–	90,177	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	27,053	–	–	(27,053)	–	–
Excess depreciation transfer		–	–	–	(6,847)	–	–	6,847	–	–
Deferred tax on excess depreciation transfer		–	–	–	2,054	–	–	(2,054)	–	–
Transfer from statutory credit risk reserve		–	–	–	–	–	(3,060,626)	3,060,626	–	–
Total other comprehensive income		**–**	**–**	**–**	**(67,917)**	**(281,102)**	**(3,060,626)**	**3,122,971**	**–**	**(286,674)**
Total comprehensive income for the year		**–**	**–**	**–**	**(67,917)**	**(281,102)**	**(3,060,626)**	**9,336,417**	**–**	**5,926,772**
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2014 paid		–	–	(81,242)	–	–	–	–	–	(81,242)
– 2015 accrual		–	–	42,811	–	–	–	–	–	42,811
Dividends paid:										
– Ordinary shares – Final 2014		–	–	–	–	–	–	–	(3,864,494)	(3,864,494)
– Preference shares – Final 2014		–	–	–	–	–	–	–	(84,690)	(84,690)
Dividends declared:										
– Ordinary shares – Interim 2015		–	–	–	–	–	–	(1,391,217)	–	(1,391,217)
– Preference shares – Interim 2015		–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed final dividends:										
– Ordinary shares	17	–	–	–	–	–	–	(3,864,494)	3,864,494	–
– Preference shares	17	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners		**–**	**–**	**(38,431)**	**–**	**–**	**–**	**(5,423,711)**	**–**	**(5,462,142)**
At 31 December 2015		**1,825,798**	**7,792,427**	**1,866,484**	**515,790**	**(172,831)**	**618,797**	**24,518,834**	**3,949,184**	**40,914,483**

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2015

2014:	Note	Share capital KShs '000	Share premium KShs '000	Capital contribution reserve KShs '000	Revaluation reserve KShs '000	Fair value reserve KShs '000	Statutory credit risk reserve KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
At 1 January 2014		1,825,798	7,792,427	1,888,873	450,223	155,958	1,323,070	17,942,822	4,650,813	36,029,984
Net profit for the year		–	–	–	–	–	–	10,404,276	–	10,404,276
Other comprehensive income										
Re-measurement of retirement benefit obligations	36	–	–	–	–	–	–	7,200	–	7,200
Deferred tax on re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	(2,160)	–	(2,160)
Change in fair value of available-for-sale investments		–	–	–	–	(68,125)	–	–	–	(68,125)
Deferred tax on change in fair value of available-for-sale investments		–	–	–	–	20,438	–	–	–	20,438
Realised revaluation reserves on sale of property		–	–	–	(43,128)	–	–	43,128	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	13,079	–	–	(13,079)	–	–
Revaluation surplus		–	–	–	229,784	–	–	–	–	229,784
Deferred tax on revaluation surplus	35	–	–	–	(62,245)	–	–	–	–	(62,245)
Excess depreciation transfer		–	–	–	(5,723)	–	–	5,723	–	–
Deferred tax on excess depreciation transfer		–	–	–	1,717	–	–	(1,717)	–	–
Transfer to statutory credit risk reserve		–	–	–	–	–	2,356,353	(2,356,353)	–	–
Total other comprehensive income		**–**	**–**	**–**	**133,484**	**(47,687)**	**2,356,353**	**(2,317,258)**	**–**	**124,892**
Total comprehensive income for the year		**–**	**–**	**–**	**133,484**	**(47,687)**	**2,356,353**	**8,087,018**	**–**	**10,529,168**
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2013 paid		–	–	(65,200)	–	–	–	–	–	(65,200)
– 2014 accrual		–	–	81,242	–	–	–	–	–	81,242
Dividends paid:										
– Ordinary shares – Final 2013		–	–	–	–	–	–	–	(4,482,813)	(4,482,813)
– Preference shares – Final 2013		–	–	–	–	–	–	–	(168,000)	(168,000)
Dividends declared:										
– Ordinary shares – Interim 2014		–	–	–	–	–	–	(1,391,218)	–	(1,391,218)
– Preference shares – Interim 2014		–	–	–	–	–	–	(83,310)	–	(83,310)
Proposed final dividends:										
– Ordinary shares	17	–	–	–	–	–	–	(3,864,494)	3,864,494	–
– Preference shares	17	–	–	–	–	–	–	(84,690)	84,690	–
Total contributions by and distributions to owners		**–**	**–**	**16,042**	**–**	**–**	**–**	**(5,423,712)**	**(701,629)**	**(6,109,299)**
At 31 December 2014		**1,825,798**	**7,792,427**	**1,904,915**	**583,707**	**108,271**	**3,679,423**	**20,606,128**	**3,949,184**	**40,449,853**

The notes set out on pages 57 to 113 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 KShs '000	2014 KShs '000
Net cash from operating activities	38 (a)	**27,718,885**	15,337,668
Cash flows from investing activities			
Purchase of property and equipment	29	**(180,381)**	(174,734)
Proceeds from sale of non-current asset held for sale		**344,465**	1,579,093
Proceeds from sale of property and equipment		**241**	2,417
Proceeds from sale of motor vehicle		**3,300**	–
Purchase of intangible assets	30	**(211,364)**	(78,015)
Net cash (used in)/from investing activities		**(43,739)**	1,328,761
Cash flows from financing activities			
Share-based payments:			
– 2014/2013 settled		**(81,242)**	(65,200)
– 2015/2014 allocated during the year		**42,811**	81,242
Dividends paid on ordinary shares:			
– Final 2014/2013	17	**(3,864,494)**	(4,482,813)
– Interim 2015/2014	17	**–**	(1,391,218)
Dividends paid on preference shares:			
– Final 2014/2013	17	**(84,690)**	(168,000)
– Interim 2015/2014	17	**–**	(83,310)
Net cash used in financing activities		**(3,987,615)**	(6,109,299)
Increase in cash and cash equivalents		**23,687,531**	10,557,130
Cash and cash equivalents at 1 January		**5,809,711**	(4,747,419)
Cash and cash equivalents at 31 December	38 (b)	**29,497,242**	5,809,711

The notes set out on pages 57 to 113 form an integral part of these financial statements.

1 REPORTING ENTITY

Standard Chartered Bank Kenya Limited is incorporated as a limited company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The Company is regulated by the Central Bank of Kenya. The address of its registered office is as follows:

StandardChartered@Chiromo
48 Westlands Road
P.O. Box 30003
00100 Nairobi GPO.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2015 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Company").

2 BASIS OF PREPARATION

(i) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the Kenyan Companies Act.

For Kenyan Companies Act reporting purposes in these financial statements, the balance sheet is represented by the statement of financial position, and the profit and loss account is presented in the income statement.

(ii) *Basis of measurement*

The consolidated financial statements set out on pages 48 to 113 have been prepared on the historical cost basis of accounting except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- share-based payments are measured at fair value;
- the liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service costs and unrecognised actuarial losses subject to International Financial Reporting Interpretations Committee (IFRIC) 14 restrictions; and
- land and buildings are measured at revalued amounts.

(iii) *Functional and presentation currency*

These consolidated financial statements are presented in Kenya shillings (KShs), which is the Company's functional currency and the currency of the primary economic environment in which the entity operates. Except as otherwise indicated, financial information presented in KShs has been rounded to the nearest thousand.

(iv) *Use of estimates and judgments*

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 5.

3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements have been applied consistently across the Group entities and to all periods presented in these financial statements.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31 December 2015. These subsidiaries are shown in Note 26.

Subsidiaries are investees controlled by the Company. The Company 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(b) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the

Group incurs in connection with a business combination are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

The accounting policy on recognition of goodwill is as disclosed in Note 3(k)(ii).

(c) Transactions in foreign currenies

Transactions in foreign currencies during the year are converted into the respective functional currencies of Group entities at rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rates ruling at the reporting date. The resulting differences from conversion are recognised in profit or loss in the year in which they arise.

Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost are translated at the exchange rate ruling at the transaction date.

(d) Income recognition

Income is derived substantially from banking business and related activities and comprises net interest income, net fee and commission income and net trading income.

Gains and losses arising from changes in the fair value of financial assets and financial liabilities at fair value through profit or loss, as well as any interest receivable or payable, is included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains or losses from monetary items, are recognised in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

The detailed policies on the specific categories of income recognised in the Group's financial statements are as further described below;

(i) Net interest income

Interest income and expense on available-for-sale assets and financial assets or financial liabilities held at amortised cost is recognised in profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability or, when appropriate, a shorter period, to the carrying amount of the financial asset or financial liability.

The effective interest rate is established on initial recognition of the financial asset and financial liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received, between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other discounts and premiums. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(ii) Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, sales commissions, custody fees and syndication fees are generally recognised on an accrual basis when the service has been provided or significant act performed. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself, or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the related services are performed.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(iv) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, or other operating income based on the underlying classification of the equity instrument.

(e) Income tax expense

Income tax expense comprises current and change in deferred tax. Income tax expense is recognised in profit or loss except to

the extent that it relates to items recognised directly in equity, or other comprehensive income, in which case it is recognised in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit. Deferred tax is not recognised on the initial recognition of goodwill as well as differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied on the temporary differences when they reverse, based on tax laws that have been enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional tax and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(f) Financial assets and financial liabilities

(i) *Classification*

The Group classifies its financial assets into the following measurement categories:

- financial assets held at fair value through profit or loss;
- loans and receivables;
- held-to-maturity; or
- available-for-sale.

Financial liabilities are classified as either held at:

- fair value through profit or loss; or
- amortised cost.

Management determines the classification of its financial assets and liabilities at initial recognition or, where applicable, at the time of reclassification.

In these financial statements, investment securities, trading assets and liabilities and loans and receivables are classified as detailed below:

Financial assets and liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis;
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis; and
- the assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

Available-for-sale

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

Financial liabilities held at amortised cost

Financial liabilities, which include borrowings, not classified as held at fair value through profit or loss are classified as amortised cost instruments.

(ii) *Initial recognition*

The Group initially recognises cash, amounts due from/due to group companies, loans and advances, deposits, debt securities and subordinated liabilities on the date they are originated. All other financial assets and financial liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

(iii) Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value taken directly to the net trading income line in the income statement.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to the available-for-sale reserve within equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables and held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest method.

Financial liabilities are subsequently measured at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

(iv) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The determination of fair values of financial assets and financial liabilities is based on transactions that take place in the principal market. In the absence of a principal market, it is assumed that the transaction occurs in the most advantageous market. For financial instruments traded in active markets, quoted market prices for identical financial assets or financial liabilities that the entity has access to are used. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For all other financial instruments which do not have an observable price in an active market, fair value is measured using valuation techniques. Valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like options, interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

For more complex instruments, the Group uses proprietary models, which are usually developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions.

When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price.

This initial difference, usually an increase, in fair value indicated by valuation techniques is recognised in profit or loss depending on the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation techniques is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the statement of financial position.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on arm's length basis.

(v) Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Identification and measurement of impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial asset not measured at fair value through profit or loss is impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the assets that can be estimated reliably.

The Group considers the following factors in assessing objective evidence of impairment:

- whether the counterparty is in default of principal or interest payments;
- when a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation;
- where the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation;

- where the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments;

- where the Group sells a credit obligation at a material credit related economic loss; or

- where there are observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

Assets carried at amortised cost
The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (measured at amortised cost) with similar risk characteristics. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security which is classified as an available-for-sale financial asset, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Available-for-sales assets
Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of other comprehensive income to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(vii) Reclassifications
Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances:

- to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or

- to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets must be reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in other comprehensive income prior to the date of reclassification is amortised to the profit or loss over the remaining life of the financial asset, using the effective interest method.

(viii) Offsetting of financial assets and financial liabilities
Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(ix) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the Group obtaining a new financial asset or assuming a new financial liability, the Group recognises the new financial asset or financial liability at fair value.

Where a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received together with any gain or loss previously recognised in other comprehensive income is recognised in profit or loss. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(g) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: notes and coins on hand, unrestricted balances deposited with the Central Bank of Kenya and highly liquid assets, subject to insignificant risk of changes in their fair value.

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

(h) Derivative financial instruments

Changes in fair value of any derivative instruments not qualifying for hedge accounting are recognised immediately in profit or loss. Derivative financial instruments are initially recognised at fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value. For derivative financial instruments traded in active markets, quoted market prices for identical financial assets or financial liabilities that the entity has access to are used. For all other financial instruments which do not have an observable price in an active market, fair value is measured using valuation techniques. Valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

The Group uses the following derivative instruments:

Currency forwards

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or to buy or sell foreign currency or a financial instrument at a future date at a specified price, established in an organised financial market.

The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate or floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. The risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency and interest rate options

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer i.e. over-the-counter (OTC). The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not

indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

(i) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. For non-financial assets, fair value takes into account the highest and best use either on a stand-alone basis or in combination with other assets or other assets and liabilities. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(j) Property and equipment

(i) Recognition, measurement and subsequent costs

Freehold land and buildings and buildings on leasehold land subsequently measured using the revaluation model are initially recognised at cost and then are subsequently measured at the fair value on the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses.

Other categories of property and equipment are included in the financial statements at their historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of the property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property and equipment are recognised in profit or loss.

(ii) Depreciation

Depreciation is calculated on a straight line basis to allocate the cost or revalued amount to their residual values over their estimated useful lives.

The estimated useful lives and depreciation rates for the current and comparative year are as follows:

Fixtures and fittings	10 years
Equipment	10 years
Computers	5 years
Motor vehicles	4 years

Buildings on leasehold land are depreciated over the shorter of fifty years and the period of the lease. Buildings on freehold land are depreciated over fifty years.

Freehold land is not depreciated although it is subject to impairment testing.

The depreciation methods, useful lives and residual lives are reviewed, and adjusted if appropriate, at each reporting date.

Freehold land and buildings are revalued every three years. The carrying amounts are adjusted to the revaluations and the resulting increase, net of deferred tax is recognised in other comprehensive income and presented in the revaluation reserve within equity.

Revaluation decreases that offset previous increases of the same asset are charged or recognised in other comprehensive income with all other decreases being charged to profit or loss.

Revaluation surpluses are not distributable.

Excess depreciation is the difference between the depreciation charge for the year based on the revalued amount and the original cost of the related property. On an annual basis, the amount relating to the excess depreciation net of deferred tax is transferred from revaluation reserves to retained earnings to recognise the use of the property and equipment.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised in profit or loss in the year in which they arise.

(iii) Non-depreciable items

These are items that have not yet been brought to the location and/or condition necessary for it to be capable of operating in

the manner intended by management. In the event of partially completed construction work that has necessitated advance or progress payments, or work-in-progress, depreciation will only commence when the work is complete. Fixed assets are classified as work-in-progress if it is probable that future economic benefits will flow to the Group and the cost can be measured reliably.

Amounts held within work in progress that are substantially complete, in common with other fixed assets, are assessed for impairment.

(k) Intangible assets

(i) Acquired intangible asset

At the date of acquisition of a business, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired (as set out in note 27). These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are subsequently amortised on the basis of their expected useful lives. At each reporting date, these assets are assessed for indications of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is impaired immediately.

(ii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired business at the date of acquisition.

Goodwill included in intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgment.

Goodwill on the acquisition of the custody business is assessed at each reporting date for impairment and carried at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments (as set out in Note 6) as the Group views its reportable segments on a global basis. Note 30 sets out the major cash generating unit to which goodwill has been allocated.

(iii) Capitalised software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the cost to complete the development. Internally developed software is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software is capitalised only if the definition of an intangible asset and the recognition criteria are met. All other expenditure is expensed as incurred.

The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding three years. Amortisation methods, useful lives and residual values are reviewed and adjusted if appropriate, at each reporting date.

(l) Operating leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Prepaid operating lease rentals in respect of leasehold land is recognised as an asset and amortised over the lease period.

(m) Impairment for non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

Goodwill is reviewed each year irrespective of whether or not there is an indication of impairment.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting period for any

indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to that liability.

(o) Employee benefits

(i) Pension obligations

Pension costs for the defined benefit scheme are assessed using the projected unit credit method. Under this method, the cost of providing pensions is recognised in profit or loss so as to spread the regular cost over the lives of pensioners in accordance with the advice of qualified actuaries who carry out a full valuation of the scheme every three years. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates on government securities that have maturity dates approximating the terms of the Group's obligations.

All the actuarial gains and losses are recognised in other comprehensive income as the pensioners and deferred pensioners participating in the scheme no longer work for the Company.

When the defined benefit calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit or loss.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service costs that had not previously been recognised. The Group's employees are also eligible for retirement benefits under a defined contribution scheme under which it pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further amounts. Obligations for contributions to the defined contribution plans are recognised as an expense in profit or loss when they are due in respect of service rendered before the end of the reporting period.

The employees and Group also contribute to the National Social Security Fund, a national retirement scheme. Contributions are determined by local statutes and the Group's contributions are charged to profit or loss in the year to which they relate.

(ii) Share-based payments

The Group's employees participate in a number of share-based payment schemes operated by Standard Chartered PLC, the ultimate holding company of Standard Chartered Bank Kenya Limited and its subsidiaries. Participating employees are awarded ordinary shares in Standard Chartered PLC in accordance with the terms and conditions of the relevant scheme.

In addition, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares of Standard Chartered PLC. The price at which they may purchase shares is at a discount of up to twenty per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under all employee share-save schemes.

On the grant date, the fair value of equity-settled share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in the capital contribution reserve, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date.

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(p) Ordinary share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares classified as equity are recognised in equity in the period in which they are declared.

(q) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised in equity in the period in which they are declared.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if the dividend payments are not discretionary. Dividends thereon are recognised in profit or loss as interest expense.

(r) Earnings per share

Basic and diluted Earnings Per Share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares if any.

(s) Dividends

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

(t) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the directors.

(u) Fiduciary activities

Assets held for clients in an agency or fiduciary capacity by the Group are not assets of the Group and are not included in the statement of financial position.

(v) Sale and repurchase agreements

Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions.

Securities purchased from the Central Bank of Kenya under agreement to resell (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(w) Related parties

In the normal course of business, the Company has entered into transactions with related parties. The related party transactions are at arm's length. Related party transactions are shown in Notes 25 and 43.

(x) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Executive Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Unallocated items comprise mainly corporate assets, tax expense, tax assets and liabilities.

(y) Comparative information

Where necessary, comparative information have been adjusted to conform with changes in the current year's presentation.

(z) New standards and interpretations

Accounting standards and Interpretations adopted for reporting periods beginning 1 January 2015

Amendment to IAS 19 *Defined benefit plans - Employee contributions.* The amendments introduced reliefs that reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedience if they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the numbers of years of service.

When contributions are eligible for practical expedience, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. The amendments apply retrospectively for annual periods beginning on or after 1 July 2014. The amendment did not have an impact on the Group's financial statements.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement:* Novation of Derivatives and Continuation of Hedge Accounting clarifies that there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendments did not have an impact on the Group's financial statements.

Amendments to IAS 36 *Impairment of Assets* modifies the disclosure of information relating to the recoverable amount of impaired assets, particularly if that amount is based on fair value less cost of disposal. The amendment did not have an impact on the Group's financial statements.

New and amended standards and interpretations in issue but not yet effective

A number of new standards and amendments to standards and interpretations are effective for periods beginning after 1 January 2015 and earlier application is permitted; however the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and a new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group has started the process of evaluating the full impact of this standard but the assessment has not been completed. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance including IAS 18 *Revenue* and IFRIC 13 *Customer Loyalty Programmes.* IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is yet to assess. IFRS 15's full impact but it is not expected to be significant.
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	The amendments to IAS 16 *Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments to IAS 38 *Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.	The adoption of these changes will not affect the amounts and disclosures of the Group's property and equipment and intangible assets.
IFRS 16 *Leases*	IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases applying IAS 17. The standard substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently but is required to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and early adoption is permitted.	The Group is yet to assess IFRS 16's full impact on the financial statements.

4 FINANCIAL RISK MANAGEMENT

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk in respect of financial instruments. The most significant types of financial risks to which the Group is exposed to are credit risk, liquidity risk, market risk and operational risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Through its risk management structure, the Group seeks to manage efficiently the core risks; credit, liquidity and market risk, which arise directly through the Group's commercial activities. Compliance and regulatory risk, operational risk and reputational risk are normal consequences of any business undertaking.

The Group has established the Asset and Liability Committee (ALCO) and the Country Operational Risk Committee (CORC), which are responsible for developing and monitoring Group risk management policies in their specified areas. All committees report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the robustness of the risk management framework in relation to the risks faced by the Group. The Board Audit Committee is supported in these functions by the Internal Audit Department, who undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are then reported to the Board Audit Committee.

Stress testing

Stress testing and scenario analysis are important components of the Group's risk assessment processes, and are used to assess the financial management capability of the Group to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, legal, political, environmental and social factors which define the context within which the Group operates. It is intended that stress testing and scenario analysis will help to inform management:

- the nature and dynamics of the risk profile;
- the identification of potential future risks;
- the robustness of risk management systems and controls;
- adequacy of contingency planning; and
- the effectiveness of risk mitigants.

Details of how the various risks are managed are outlined below:

(a) Credit risk

The Group takes on exposure to credit risk which is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral against loans and advances in the form of mortgage interests over property, other registered securities over assets and guarantees.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Corporate & Institutional Banking and Commercial Banking Segments

Within the Corporate & Institutional Banking and Commercial Banking segments, a numerical grading system is used for quantifying the risk associated with a counterparty. The grading is based on a probability of default measure with customers analysed against a range of quantitative and qualitative measures. The numeric grades run from 1 to 14. Counterparties with lower credit grades are assessed as being less likely to default. An A to C scale is assigned to the original numeric rating scale, to enable more granular mapping of the probability to default, which results in more refined risk assessment, risk control and pricing. A counterparty with an A suffix has a lower probability of default than a counterparty with a C suffix. Credit grades 1A to credit grade 12C are assigned to performing customers while credit grades 13 and 14 are assigned to non-performing (or defaulted) customers.

Origination and approval roles are segregated.

There is no direct relationship between the Group's internal credit grades and those used by external rating agencies. The Group's credit grades are not intended to replicate external credit grades, although as the factors used to grade a borrower are often similar, a borrower rated poorly by an external rating agency is typically rated in the lower rank of the Group's internal credit grades.

In addition to nominal aggregate exposure, expected loss is used in the assessment of individual exposures and for portfolio analysis. Expected loss is the long-run average credit loss across a range of typical economic conditions. It is used in the delegation of credit approval authority and must be calculated for every transaction to determine the appropriate level of approval. To assist risk officers in monitoring the portfolio, various internal risk management reports are available on a regular basis, providing individual counterparty, counterparty

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Corporate & Institutional Banking and Commercial Banking Segments (Continued)

group and portfolio exposure information, the status of accounts showing signs of weakness or financial deterioration and updates on credit markets.

Retail Banking Segment

Credit risk in the Retail Banking segment, is also managed through a framework of policies and procedures. Origination and approval roles are segregated. To aid Credit managers in portfolio management, regular internal risk management reports contain information on key environmental and economic trends across major portfolios, portfolio delinquency and loan impairment performance as well as information on migration across credit grades and other trends.

Problem credit management and provisioning

(i) Corporate & Institutional Banking and Commercial Banking Segments

In Corporate & Institutional Banking and Commercial Banking segments, accounts or portfolios are placed on Credit Issues Committee when they display signs of weakness or financial deterioration, for example where there is a rapid decline in the client's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management.

Such accounts and portfolios are subject to a dedicated process with oversight involving the Chief Executive Officer, Senior Risk Officer and Group Special Asset Management ("GSAM"). Account plans are re-evaluated and remedial actions are agreed and monitored until complete. Remedial actions include, but are not limited to, exposure reduction, security enhancement and exit of the account or immediate movement of the account into the control of GSAM, the specialist recovery unit.

Loans are considered impaired and non-performing where analysis and review indicates that full payment of either interest or principal becomes questionable or as soon as payment of interest or principal is 90 days or more overdue. Impaired accounts are managed by GSAM, which is independent of the main businesses of the Group. Where any amount is considered uncollectable, an individual impairment provision is raised, being the difference between the loan carrying amount and the present value of estimated future cash flows. In any decision relating to the recognition of an impairment provision, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

A portfolio impairment provision is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in any loan portfolio. In Corporate & Institutional Banking and Commercial Banking segments, the portfolio impairment provision is set with reference to past experience using loss rates, and judgmental factors such as the economic environment and the trends in key portfolio indicators.

ii) Retail Banking Segment

In the Retail Banking segment, where there are large numbers of small value loans, a primary indicator of potential impairment is delinquency. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired.

Within the Retail Banking segment, an account is considered to be delinquent when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. For delinquency reporting purposes, the Group follows industry standards, measuring delinquency as of 1, 30, 60, 90, 120 and 150 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to specific collection processes.

The impairment assessment within the Retail Banking segment reflects the fact that the product portfolios (excluding Business Clients customers) consist of a large number of comparatively small exposures. As a result, much of the impairment assessment is initially done at an account level for each product and a Portfolio Impairment Provision ("PIP") is raised on a portfolio basis.

A Portfolio Impairment Provision ("PIP") is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in the loan portfolio. PIP covers both performing loans and loans overdue for less than 150 days. The provision is set with reference to proxy data from Internal Ratings Based ('IRB') portfolios based on the Expected Loss ("EL") of a product after applying judgmental overlays based on regulatory environment and business cycle adjustments based on macro-environment, portfolio loss severity, collections and recovery performance trends.

The process used for recognising the impairment provisions is dependent on the product. For mortgages, individual impairment provisions ("IIP") are generally raised at 150 days past due based on the difference between the outstanding amount of the loan and the present value of the estimated future cash flows which includes the realisation of collateral. For other secured loans (where the collateral value is typically realised in less than 12 months), loan impairment is calculated using the forced sale value of the collateral without further discounting. For unsecured products, individual provisions are recognised for the entire outstanding amount at 150 days past due. For all products, there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

Non-performing loans are past due by more than 90 days or have an individual impairment provision raised against them.

The procedures for managing problem credits for the Business Clients sub-segment of Retail Banking segment are similar to those adopted for Corporate & Institutional Banking and Commercial Banking segments described above.

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The Group exposure to credit risk is analysed as follows:

(iii) Loans and advances to customers

Group and Company	2015 KShs '000	2014 KShs '000
Individually impaired:		
Grade 13: Impaired	3,098,908	1,236,810
Grade 14: Impaired	11,599,012	9,515,683
	14,697,920	10,752,493
Allowance for impairment	(7,329,107)	(2,688,144)
	7,368,813	8,064,349
Loans past due but not impaired:		
Past due up to 30 days	3,967,487	3,384,397
Past due 31 – 60 days	690,110	530,248
Past due 61 – 90 days	425,688	226,219
	5,083,285	4,140,864
Loans neither past due nor impaired:		
Grade 1	154,720	50,896
Grade 2	–	–
Grade 3	104,611	–
Grade 4	861,327	497,364
Grade 5	1,607,998	6,816,874
Grade 6	1,402,529	7,219,468
Grade 7	6,632,278	9,337,035
Grade 8	11,292,389	14,881,092
Grade 9	12,195,886	10,351,363
Grade 10	12,028,988	6,859,053
Grade 11	55,524,734	54,652,924
Grade 12 – watch	1,823,155	715,848
	103,628,615	111,381,917
Portfolio impairment provision	(955,286)	(837,897)
	102,673,329	110,544,020
Net loans and advances	115,125,427	122,749,233

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Fair value of collateral held

Group and Company	2015 KShs '000	2014 KShs '000
Against impaired loans	5,742,838	7,395,042
Against past due but not impaired loans	5,083,285	7,358,618

The Group holds collateral against loans and advances to customers in the form of cash, residential, commercial and industrial property, fixed assets such as plant and machinery, marketable securities, bank guarantees and letters of credit.

The Group also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral.

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is backtested at least annually.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2015 and 2014.

(v) Loans and advances concentration by sector

Group and Company	2015 KShs '000	2014 KShs '000
Business services	2,213,994	5,782,664
Manufacturing	25,071,517	22,548,046
Wholesale and retail trade	18,874,362	24,013,793
Transport and communication	6,355,228	3,974,046
Real estate	3,686,468	4,863,572
Agriculture	4,649,471	6,329,029
Energy and water	9,307,040	6,985,489
Others	53,251,740	51,778,635
	123,409,820	126,275,274

Credit concentration risk in Corporate & Institutional Banking and Commercial Banking segments is managed through the use of various concentration dimensions that include industry sector, geographic spread, credit rating, customer segment and exposure to single counterparties or groups of related counterparties.

Credit concentration risk in Retail Banking segment is managed within exposure limits set for each product segment. These limits are reviewed at least annually and are approved by the responsible business and risk officer and ultimately by the Board in accordance with their delegated authority level.

(vi) Loans and advances concentration by business

Group and Company	2015 KShs '000	2014 KShs '000
Corporate & Institutional Banking	50,697,028	58,291,749
Commercial Banking	13,647,686	12,010,297
Retail Banking	59,065,106	55,973,228
	123,409,820	126,275,274

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(vii) Other financial assets

	2015		2014	
	Group	Company	Group	Company
Neither past due nor impaired:	KShs '000	KShs '000	KShs '000	KShs '000
Cash and balances with Central Bank of Kenya	14,240,581	14,240,581	15,383,312	15,383,312
Government and other securities held for trading	5,709,525	5,709,525	3,076,047	3,076,047
Derivative financial instruments	688,538	688,538	100,242	100,242
Loans and advances to banks	3,190,915	3,190,915	4,802,936	4,802,936
Investment securities	67,911,422	67,911,422	55,679,006	55,679,006
Other assets - uncleared effects	136,288	136,288	91,992	93,277
Amounts due from group companies	17,857,239	17,890,777	11,004,805	11,004,805

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Market & Traded Credit Risk (MTCR).

Derivatives

The credit risk arising from derivatives is managed as part of the overall lending limits to banks and customers. The amount of credit risk is the current positive fair value of the underlying contract together with potential exposures from future market movements. The Group further limits its exposures to credit losses in the event of default by entering into master netting agreements with certain market counterparties. Exposures are not presented net in the financial statements as in the ordinary course of business they are not intended to be settled net.

Where appropriate, derivatives are used to reduce credit risks in the portfolio. Due to their potential impact on income volatility, derivatives are only used in a controlled manner and within a pre-defined volatility expectation.

Loans with renegotiated terms

Loans renegotiated which would otherwise be past due or impaired, continue to be accounted for as non-performing until a minimum number of payments have been received under the new terms, after which they are considered to be performing loans. Loans which are renegotiated to include concessions that the Group would not ordinarily make will usually be impaired.

Write-off policy

Where it is considered that there is no realistic prospect of recovering an element of an account against which an impairment provision has been raised, then that amount will be written off. The determination is reached after considering information such as the occurrence of significant changes in the borrower's/issuer's position such that the borrower/issuer can no longer pay the obligation, or that proceeds from the collateral will not be sufficient to pay back the entire exposure.

(b) Liquidity risk

Liquidity risk is the risk that the Group either does not have sufficient resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at excessive cost. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The Group manages liquidity risk both on a short-term and medium-term basis. In the short-term, the focus is on ensuring that the cash flow demands can be met through asset maturities, customer deposits and wholesale funding where required. In the medium-term, the focus is on ensuring the statement of financial position remains structurally sound.

ALCO is responsible for ensuring that the Group is self-sufficient and is able to meet all its obligations to make payments as they fall due by operating within the set liquidity limits. It also has primary responsibility for compliance with regulations and Group policy and maintaining a liquidity crisis contingency plan.

The Group liquidity risk management framework requires limits to be set for prudent liquidity management. These limits are on:

- the mismatch in local and foreign currency behavioural cash flows;
- the level of wholesale borrowing to ensure that the size of this funding is proportional to the local market and the Group's operations;
- commitments, both on and off the statement of financial position, to ensure there are sufficient funds available in the event of drawdown on these commitments;
- the advances to deposits ratio to ensure that commercial advances are funded by stable sources;
- the amount of medium term funding to support the asset portfolio; and
- the amount of local currency funding sourced from foreign currency sources.

In addition, the Group prescribes a liquidity stress scenario that assumes accelerated withdrawal of deposits over a period of time. The Group has to ensure that cash inflows exceed outflows under such a scenario.

All limits are reviewed at least annually, and more frequently if required, to ensure that they are relevant given market conditions and business strategy. Compliance with limits is monitored independently by MTCR. Limit excesses are escalated and approved under a delegated authority structure and reviewed by ALCO.

In addition, regular reports to the ALCO include the following:

- information on the concentration and profile of debt maturities; and
- depositor concentration report to monitor reliance on large depositors.

The Group maintains a portfolio of short-term liquid assets, principally government securities, which can be realised, repurchased or used as collateral in the event that there is a need for liquidity in a crisis. In addition, liquidity crisis management plans are maintained by the Group and are reviewed and approved annually. The liquidity crisis management plan lays out trigger points and actions in the event of a liquidity crisis to ensure that there is an effective response by senior management.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of liquidity risk.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

A substantial portion of the Group's assets are funded by customer deposits made up of current and savings accounts and other deposits. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. Lending is normally funded by liabilities in the same currency. ALCO monitors trends in the statement of financial position and ensures that any concerns that might impact the stability of these deposits are addressed effectively. ALCO also reviews balance sheet plans to ensure that asset growth plans are matched by growth in the relevant funding base.

The Group also maintains significant levels of marketable securities either for compliance with statutory requirements or as prudential investments of surplus funds.

A key measure of liquidity risk is the ratio of net liquid assets to deposit liabilities. The Central Bank of Kenya requires banks to maintain a statutory minimum ratio of 20% of liquid assets to all its deposit liabilities.

For this purpose, liquid assets comprise cash and balances with Central Bank of Kenya, net loans and advances with banks, treasury bonds and bills and net balances with banks abroad.

Deposit liabilities comprise deposits from customers and other liabilities that have matured or maturing within 91 days.

The liquidity ratios at the reporting date and during the reporting period (based on month end ratios) were as follows:

Company	2015	2014
	%	%
At 31 December	54	46
Average for the year	52	44
Highest for the year	56	52
Lowest for the year	43	34

The Group also monitors on a regular basis the advances to deposits ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposit ratio demonstrates that customer deposits exceed customer loans resulting from the emphasis placed on generating a high level of stable funding from customers.

The advances to deposits ratio at end of the reporting period was as follows:

Company	2015	2014
	KShs '000	KShs '000
Loans and advances to customers	115,125,427	122,749,233
Deposits from customers	172,036,056	154,066,931
	%	%
Advances to deposits ratio	67	80

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

All figures are in thousands of Kenya Shillings (KShs '000).

31 December 2015:

Group LIABILITIES	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Deposits from banks	4,293,413	–	–	–	–	4,293,413
Deposits from customers	144,300,611	6,167,285	19,011,377	2,553,736	3,047	172,036,056
Derivative financial instruments	458,669	–	–	–	–	458,669
Other liabilities - bills payable	771,676	–	–	–	–	771,676
Amounts due to group companies	1,157,723	–	2,044,000	1,022,000	6,132,000	10,355,723
At 31 December 2015	**150,982,092**	**6,167,285**	**21,055,377**	**3,575,736**	**6,135,047**	**187,915,537**

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

31 December 2014:

Group LIABILITIES	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Deposits from banks	7,428,933	724,919	952,474	–	–	**9,106,326**
Deposits from customers	125,698,384	12,483,601	13,411,436	2,402,716	70,794	**154,066,931**
Derivative financial instruments	378,374	–	–	–	–	**378,374**
Other liabilities - bills payable	320,878	–	–	–	–	**320,878**
Amounts due to group companies	4,981,405	–	228,484	2,722,500	5,427,000	**13,359,389**
At 31 December 2014	**138,807,974**	**13,208,520**	**14,592,394**	**5,125,216**	**5,497,794**	**177,231,898**

Customer deposits up to three months represent current, savings and call deposit account balances, which past experience has shown to be stable and of a long-term nature.

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time-frame.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

(c) Market risk

The Group recognises market risk as the risk of loss arising from changes in market prices and rates. The Group's exposure to market risk arises principally from customer-driven transactions. The objective of the Group's market risk policies and processes is to obtain the best balance between risk and return whilst meeting customers' requirements.

The primary categories of market risk for the Group are:

- interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;
- foreign exchange risk: arising from changes in exchange rates and implied volatilities on foreign exchange options; and
- commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; covering energy, precious metals, base metals etc.

Overall responsibility for market risk is vested in Executive Risk Committee (ERC), who approve the Group's market risk appetite taking into account the market volatility, the range of traded products and asset classes, business volumes and transaction sizes. Market risk appetite has remained broadly stable in 2015.

MTCR is responsible for setting Value at Risk (VaR) and stress loss limits for market risk within the Group's risk appetite. It is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both the trading and non-trading books of the Group.

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

MTCR approves the limits within delegated authorities and monitors exposures against these limits and reports to ERC and ALCO. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to one basis point increase in yields, whereas foreign exchange, commodity and equity sensitivities are measured in terms of underlying values or amounts involved.

Sensitivity analysis

The Group measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology. VaR, in general, is a quantitative measure of market risk that applies recent historic market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit or loss outcomes.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

The Group applies two VaR methodologies:

- Historic simulation: involves the revaluation of all unmatured contracts to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors; and

- Monte Carlo simulation: this methodology is similar to historic simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for credit spread VaR.

In both methods a historical observation period of one year is chosen and applied.

VaR is calculated as the Group's exposure as at the close of business. Intra-day risk levels may vary from those reported at the end of the day.

The Group recognises that there are limitations to the VaR methodology. These limitations include the fact that the historic data may not be the best proxy for future price movements, either because the observation period does not include representative price movements or, in some cases, because of incomplete market data.

The Group performs regular backtesting, where actual profits and losses are compared with VaR estimates to track the statistical validity of the VaR model.

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore give no indication of the size of unexpected losses in these situations. To manage the risk arising from such events, which the VaR methodology does not fully capture, the Group regularly stress tests its main market risk exposures. Stress testing involves valuing portfolios at prices, which assume extreme changes in risk factors beyond the range of normal experience.

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

An analysis of the Group's sensitivity to changes in market interest and exchange rates is as follows:

All figures are in thousands of Kenya Shillings (KShs '000)

Company

2015:

Daily value at risk:	At 31 December	Average	High	Low
Foreign exchange risk	29,334	12,812	29,334	4,310
Interest rate risk	174,409	80,887	186,613	34,445
	203,743	**93,699**	**215,947**	**38,755**

2014:

Daily value at risk:				
Foreign exchange risk	8,894	8,095	15,065	363
Interest rate risk	38,841	72,746	102,366	33,033
	47,735	**80,841**	**117,431**	**33,396**

4 FINANCIAL RISK MANAGEMENT (Continued)
(c) Market risk (Continued)
(i) Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risks. Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

All figures are in thousands of Kenya Shillings (KShs '000)

Group

2015:

ASSETS	Weighted average effective interest rate (%)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	14,240,581	**14,240,581**
Government and other securities held for trading	12.95	–	–	107,850	3,946,700	1,891,050	(236,075)	**5,709,525**
Derivative financial instruments	–	688,538	–	–	–	–	–	**688,538**
Loans and advances to banks	6.19	2,229,265	–	–	750,264	–	211,386	**3,190,915**
Loans and advances to customers	13.15	10,059,167	7,607,516	6,638,428	40,451,429	43,000,072	7,368,815	**115,125,427**
Investment securities	12.44	4,720,000	22,500,000	23,977,330	18,710,350	–	(1,996,258)	**67,911,422**
Other assets - uncleared effects	–	–	–	–	–	–	136,288	**136,288**
Amounts due from group companies	0.35	13,116,420	–	–	–	–	4,740,819	**17,857,239**
At 31 December 2015		**30,813,390**	**30,107,516**	**30,723,608**	**63,858,743**	**44,891,122**	**24,465,556**	**224,859,935**
LIABILITIES								
Deposits from banks	4.39	4,045,027	–	–	–	–	248,386	**4,293,413**
Deposits from customers	6.40	56,743,999	6,167,285	19,011,377	2,553,736	3,047	87,556,612	**172,036,056**
Derivative financial instruments	–	458,669	–	–	–	–	–	**458,669**
Other liabilities – bills payable	–	–	–	–	–	–	771,676	**771,676**
Amounts due to group companies	1.51	–	–	2,044,000	1,022,000	6,132,000	1,157,723	**10,355,723**
At 31 December 2015		**61,247,695**	**6,167,285**	**21,055,377**	**3,575,736**	**6,135,047**	**89,734,397**	**187,915,537**
Interest rate sensitivity gap		**(30,434,305)**	**23,940,231**	**9,668,231**	**60,283,007**	**38,756,075**	**(65,268,841)**	**36,944,398**

4 FINANCIAL RISK MANAGEMENT (Continued)
(c) Market risk (Continued)
(i) Interest rate risk (Continued)

All figures are in thousands of Kenya Shillings (KShs '000)

Group
2014:

ASSETS	Weighted average effective interest rate (%)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with Central Bank of Kenya	8.25	1,997,743	–	–	–	–	13,385,569	**15,383,312**
Government and other securities held for trading	10.79	–	–	–	–	3,257,950	(181,903)	**3,076,047**
Derivative financial instruments	–	100,242	–	–	–	–	–	**100,242**
Loans and advances to banks	6.42	3,391,765	–	250,000	1,000,000	–	161,171	**4,802,936**
Loans and advances to customers	12.95	11,297,928	24,970,103	6,631,120	42,728,843	29,056,890	8,064,349	**122,749,233**
Investment securities	10.24	5,200,000	8,223,300	27,842,450	15,359,050	–	(945,794)	**55,679,006**
Other assets - uncleared effects	–	–	–	–	–	–	91,992	**91,992**
Amounts due from group companies	0.31	–	–	220,125	–	1,815,000	8,969,680	**11,004,805**
At 31 December 2014		**21,987,678**	**33,193,403**	**34,943,695**	**59,087,893**	**34,129,840**	**29,545,064**	**212,887,573**
LIABILITIES								
Deposits from banks	1.99	7,081,467	724,919	952,474	–	–	347,466	**9,106,326**
Deposits from customers	4.44	41,612,339	12,468,435	13,134,556	2,434,327	70,585	84,346,689	**154,066,931**
Derivative financial instruments	–	378,374	–	–	–	–	–	**378,374**
Other liabilities – bills payable	–	–	–	–	–	–	320,878	**320,878**
Amounts due to group companies	1.41	4,083,750	–	228,484	2,722,500	5,427,000	897,655	**13,359,389**
At 31 December 2014		**53,155,930**	**13,193,354**	**14,315,514**	**5,156,827**	**5,497,585**	**85,912,688**	**177,231,898**
Interest rate sensitivity gap		**(31,168,252)**	**20,000,049**	**20,628,181**	**53,931,066**	**28,632,255**	**(56,367,624)**	**35,655,675**

4 FINANCIAL RISK MANAGEMENT (Continued)
(c) Market risk (Continued)
(ii) Currency rate risk

The Group operates wholly within Kenya and its assets and liabilities are translated to the local currency. The Group maintains trade with the main shareholder and other correspondent banks.

The various foreign currencies to which the Group is exposed to are summarised below:-

All figures are in thousands of Kenya Shillings (KShs '000)

Group

2015:

	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	2,217,206	130,563	54,347	210,926	**2,613,042**
Loans and advances to customers	37,212,956	798,023	–	294,388	**38,305,367**
Other assets	5,282,672	385,335	58,634	5,038	**5,731,679**
Amounts due from group companies	13,566,891	1,455,178	1,608,136	212,102	**16,842,307**
At 31 December 2015	**58,279,725**	**2,769,099**	**1,721,117**	**722,454**	**63,492,395**
LIABILITIES					
Deposits from banks	1,067,618	6,310	51	–	**1,073,979**
Deposits from customers	48,739,489	2,531,199	1,630,221	161,710	**53,062,619**
Other liabilities	4,075,350	54,639	48,044	1,107,048	**5,285,081**
Amounts due to group companies	9,285,593	–	–	97,210	**9,382,803**
At 31 December 2015	**63,168,050**	**2,592,148**	**1,678,316**	**1,365,968**	**68,804,482**
Net statement of financial position exposure	**(4,888,325)**	**176,951**	**42,801**	**(643,514)**	**(5,312,087)**

Group

2014:

ASSETS					
Cash, deposits and advances to banks	1,299,616	141,986	68,751	170,110	**1,680,463**
Loans and advances to customers	35,527,547	562,769	923,572	297,469	**37,311,357**
Other assets	11,071,452	1,345,009	44,619	22,014	**12,483,094**
Amounts due from group companies	6,108,934	2,059,104	768,110	21,385	**8,957,533**
At 31 December 2014	**54,007,549**	**4,108,868**	**1,805,052**	**510,978**	**60,432,447**
LIABILITIES					
Deposits from banks	8,673,962	3,573	48	–	**8,677,583**
Deposits from customers	40,842,936	2,854,338	1,955,207	161,286	**45,813,767**
Other liabilities	9,101,797	160,200	56,610	57,033	**9,375,640**
Amounts due to group companies	12,465,327	11,849	–	38,021	**12,515,197**
At 31 December 2014	**71,084,022**	**3,029,960**	**2,011,865**	**256,340**	**76,382,187**
Net statement of financial position exposure	**(17,076,473)**	**1,078,908**	**(206,813)**	**254,638**	**(15,949,740)**

4 FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

Compliance with operational risk policies and procedures is the responsibility of all managers. CORC has the governance responsibility for ensuring that an appropriate and robust risk management framework is in place to monitor and manage operational risk.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This is supported by the development of overall Group standards for the management of operational risk in areas such as compliance with regulatory requirements, ethical and business standards, training and professional development, documentation of controls and procedures and requirements for the reconciliation and monitoring of transactions amongst others.

(e) Capital management

The Central Bank of Kenya sets and monitors capital requirements for all banks.

The objective of the Central Bank of Kenya is to ensure that a bank maintains a level of capital which:

- is adequate to protect its depositors and creditors;
- is commensurate with the risks associated with its activities and profile; and
- promotes public confidence in the bank.

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets.

Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

The Central Bank of Kenya requires a bank to maintain at all times:

- a core capital of not less than 10.50% of total risk weighted assets, plus risk weighted off-balance sheet items;
- a core capital of not less than 8.00% of its total deposit liabilities; and
- a total capital of not less than 14.50% of its total risk weighted assets, plus risk weighted off-balance sheet items.

In addition, a bank must maintain a minimum core capital of KShs 1,000 million.

Capital is segregated into core capital (Tier 1) and supplementary capital (Tier 2).

Core capital includes ordinary share capital, irredeemable preference share capital, capital contribution reserve, share premium and retained earnings after deductions for goodwill and intangible assets.

Supplementary capital on the other hand includes 25% of revaluation reserves of property and equipment and the statutory credit risk reserve.

Risk weighted assets are arrived at using a framework of four weights applied to both on-balance sheet and off-balance sheet items to reflect the relative risk of each asset and counterparty.

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

The Company's regulatory capital position at 31 December 2015 was as follows:

Company	2015 KShs '000	2014 KShs '000
Core capital (Tier 1)		
Share capital	1,825,798	1,825,798
Share premium	7,792,427	7,792,427
Retained earnings	24,518,834	20,606,128
Capital contribution reserve	1,823,673	1,823,673
	35,960,732	32,048,026
Less deductions from capital:		
Goodwill on acquired intangible (Note 30)	(1,112,111)	(1,112,111)
Acquired intangible (Note 30)	(1,589,796)	(1,991,873)
	33,258,825	28,944,042
Supplementary capital (Tier 2)		
Revaluation reserves (25%)	128,948	145,927
Statutory credit risk reserve	618,797	1,763,972
Subordinated debt (Note 25)	6,140,721	5,434,246
	6,888,466	7,344,145
Total capital	40,147,291	36,288,187
Risk weighted assets		
Credit risk	127,222,770	141,117,769
Market risk	16,928,911	4,627,273
Operational risk	45,595,748	37,359,617
Total risk weighted assets	189,747,429	183,104,659
Deposits from customers	172,036,056	154,066,931
Capital ratios		
Core capital/total deposit liabilities (CBK minimum 8.00%)	19%	19%
Core capital/total risk weighted assets (CBK minimum 10.50%)	18%	16%
Total capital/total risk weighted assets (CBK minimum 14.50%)	21%	20%

Capital allocation

The Company's capital management approach is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic business and capital plans are drawn up annually. The plan ensures that adequate levels of capital and optimum mix of the different components of capital are maintained by the Group to support the strategy. This is integrated with the Group's annual planning process that takes into consideration business growth assumptions across products and the related impact on capital resources.

The capital plan takes the following into account:

- regulatory capital requirements;
- forecast demand for capital to maintain credit ratings;
- increases in demand for capital due to business growth, market shocks or stresses;
- available supply of capital and capital raising options; and
- internal controls and governance for managing the Company's risk, performance and capital.

4 FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

Capital allocation (Continued)

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by MTCR and Group Credit, and is subject to review by the ALCO.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

(f) Compliance and regulatory risk

Compliance and regulatory risk includes the risk of non-compliance with regulatory requirements. The Compliance function is responsible for establishing and maintaining an appropriate framework of Group compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

(g) Legal risk

Legal risk is the risk of unexpected loss, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or other loss for the Group, failure to protect the title to and ability to control the rights to assets of the Group (including intellectual property rights), changes in the law, or jurisdictional risk. The Group manages legal risk through the legal function, legal risk policies and procedures and effective use of its internal and external lawyers.

(h) Reputational risk

Reputational risk is the risk of failing to meet the standards of performance or behaviour required or expected by stakeholders in commercial activities or the way in which business is conducted. Reputational risks arise as a result of poor management of problems occurring in one or more of the primary banking risk areas (Credit, Market, Operational risk areas) and/or from social, ethical or environmental risk issues.

All members of staff have a responsibility for maintaining the Group's reputation.

The Group manages reputational risk through the Reputational Risk Committee.

(i) Independent monitoring

Internal Audit is an independent function that reports to the Board Audit Committee and provides an independent check that Group and business standards, policies and procedures are being complied with; where necessary, corrective action is recommended.

5 USE OF ESTIMATES AND JUDGMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the reporting date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgments in respect of measuring financial instruments. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty are set out in the notes below:

(a) Loan loss provisioning

(i) Retail Banking segment

An account is considered to be in default when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. These accounts are closely monitored and subject to a collection process.

The process used for recognising impairment provisions is dependent on the product. For mortgages, Individual Impairment Provisions ("IIP") are generally raised at 150 days past due based on the difference between the outstanding amount on the loan and the present value of the estimated future cash flows. Loan impairment for other secured loans utilises the forced sale value of the collateral without discounting. For unsecured products, individual impairment provisions are recognised for the entire outstanding amount at 150 days past due. For all products there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

A Portfolio Impairment Provision ("PIP") is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in the loan portfolio. PIP covers both performing loans and loans overdue for less than 150 days. The impairment provision is computed using proxy data from Internal Ratings Based ('IRB') portfolios. This proxy is based on the Expected Loss ("EL") of a product after applying judgmental overlays based on regulatory environment and business cycle adjustments based on macro-environment, portfolio loss severity, collections and recovery performance trends.

(ii) Corporate & Institutional Banking and Commercial Banking segments

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

(b) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value, with changes in fair value either reported within profit or loss or within other comprehensive income until the instrument is sold or becomes impaired. Details of the type and classification of the Group's financial instruments are set out in Note 7 and the accounting policy set out in Note 3(f) to the financial statements.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active, including for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

(b) Fair value of financial instruments (Continued)

valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data. The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters.

Equity investments that do not have observable market prices are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

(c) Pensions

Actuarial assumptions are made in valuing future defined benefit obligations and are updated periodically. The principal assumption relates to the discount rate. The discount rate is equal to the yield on government securities which have a term to maturity approximating that of the related liability, and is potentially subject to significant variation. As a result, there is uncertainty that this assumption will continue in the future.

(d) Useful life of assets

Property and equipment

Critical estimates are made by the management in determining the useful life for property and equipment.

Acquired intangible asset

Critical estimates are made by management in determining the useful life of the acquired customer relationships giving rise to the acquired intangible asset.

(e) Revaluation of items of property and equipment

Certain items of property and equipment are measured at revalued amounts. The fair value is determined based on the market and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(f) Taxes

Determining income tax balances involves judgment on the tax treatment of certain transactions. Deferred tax assets are recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgments as to the probability of tax losses being available for offset at a later date.

(g) Share-based payments

The Group's employees participate in a number of share-based payment schemes operated by Standard Chartered PLC, the ultimate holding company of Standard Chartered Bank Kenya Limited and its subsidiaries. Participating employees are awarded ordinary shares in Standard Chartered PLC in accordance with the terms and conditions of the relevant scheme.

Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models; which require inputs such as risk-free interest rate, expected dividends, expected volatility and the expected option life and is expensed over the vesting period. Some of the inputs used, such as the expected option life, are not market observable and are based on estimates derived from available data, such as employee exercise behaviour. The models utilised, such as the binomial option pricing model, are intended to value options traded in active markets. The share options issued by Standard Chartered PLC however have a number of features that make them incomparable to such trade options. Using different input estimates or models could produce different option values, which would result in the recognition of higher or lower expense.

(h) Valuation of acquired intangible asset

At the date of acquisition of a business, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired.

Management has determined the fair value of the customer relationships acquired by discounting the future cash flows expected to be generated over the useful life determined to be 11 years.

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

(i) Goodwill impairment

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired business at the date of acquisition.

Goodwill on the acquisition of the custody business is assessed at each reporting date for impairment and carried at cost less any accumulated impairment losses.

Goodwill is allocated to cash generating units for the purpose of impairment testing.
Note 30 sets out the major cash generating unit to which goodwill has been allocated, value in use, assumptions and assessment of impairment.

6 OPERATING SEGMENTS

The Group is organised for management and reporting purposes into three client segments: Corporate & Institutional Banking, Commercial Banking and Retail Banking.

The Group evaluates segmental performance on the basis of profit or loss before taxation.

The segment results were as follows:

Group

Statement of comprehensive income for the year ended 31 December 2015	Corporate & Institutional Banking KShs '000	Commercial Banking KShs '000	Retail Banking KShs '000	Total KShs '000
Net interest income	8,545,030	1,196,731	7,859,701	**17,601,462**
Non funded income	3,741,123	478,407	2,993,362	**7,212,892**
Operating income	**12,286,153**	**1,675,138**	**10,853,063**	**24,814,354**
Operating expenses	(4,482,431)	(1,182,215)	(5,398,129)	**(11,062,775)**
Net impairment losses on loans and advances	(780,767)	(2,804,803)	(1,006,077)	**(4,591,647)**
Profit / (loss) before taxation	**7,022,955**	**(2,311,880)**	**4,448,857**	**9,159,932**

31 December 2014				
Net interest income	8,401,837	1,351,030	7,547,569	**17,300,436**
Non funded income	5,217,282	603,113	2,466,185	**8,286,580**
Operating income	**13,619,119**	**1,954,143**	**10,013,754**	**25,587,016**
Operating expenses	(3,711,612)	(1,184,792)	(5,297,201)	**(10,193,605)**
Net impairment losses on loans and advances	(16,830)	(100,041)	(930,559)	**(1,047,430)**
Profit before taxation	**9,890,677**	**669,310**	**3,785,994**	**14,345,981**

6 OPERATING SEGMENTS (Continued)

Group

Statement of financial position as at 31 December 2015	Corporate & Institutional Banking KShs '000	Commercial Banking KShs '000	Retail Banking KShs '000	Unallocated KShs '000	Total KShs '000
Assets					
Segment assets	145,156,770	10,021,367	58,210,921	–	**213,389,058**
Unallocated assets	–	–	–	20,576,389	**20,576,389**
Total assets	**145,156,770**	**10,021,367**	**58,210,921**	**20,576,389**	**233,965,447**
Liabilities and shareholders' equity					
Segment liabilities	82,925,945	14,790,590	89,427,326	–	**187,143,861**
Unallocated liabilities	–	–	–	46,821,586	**46,821,586**
Inter-segment lending	62,230,825	(4,769,223)	(31,216,405)	(26,245,197)	**–**
Total liabilities and shareholders' equity	**145,156,770**	**10,021,367**	**58,210,921**	**20,576,389**	**233,965,447**
Other segment items					
Depreciation and amortisation	474,691	20,273	281,902	192,548	**969,414**
Capital expenditure	–	–	77,477	125,977	**203,454**

31 December 2014					
Assets					
Segment assets	133,942,543	11,498,447	55,151,412	–	**200,592,402**
Unallocated assets	–	–	–	21,903,422	**21,903,422**
Total assets	**133,942,543**	**11,498,447**	**55,151,412**	**21,903,422**	**222,495,824**
Liabilities and shareholders' equity					
Segment liabilities	85,937,905	16,259,984	74,713,131	–	**176,911,020**
Unallocated liabilities	–	–	–	45,584,804	**45,584,804**
Inter-segment lending	48,004,638	(4,761,537)	(19,561,719)	(23,681,382)	**–**
Total liabilities and shareholders' equity	**133,942,543**	**11,498,447**	**55,151,412**	**21,903,422**	**222,495,824**
Other segment items					
Depreciation and amortisation	521,623	12,073	236,160	221,409	**991,265**
Capital expenditure	–	–	99,773	82,499	**182,272**

7 FINANCIAL ASSETS AND LIABILITIES

(a) Accounting classification

The table below sets out the carrying amounts of each class of financial assets and financial liabilities:

Group

31 December 2015:

	Note	Fair value through profit or loss KShs '000	Loans and receivables KShs '000	Available-for-sale KShs '000	Financial liabilities at amortised cost KShs '000	Total carrying amount KShs '000
Assets						
Cash and balances with Central Bank of Kenya	18	–	14,240,581	–	–	**14,240,581**
Government and other securities held for trading	19	5,709,525	–	–	–	**5,709,525**
Derivative financial instruments	20	688,538	–	–	–	**688,538**
Loans and advances to banks	21	–	3,190,915	–	–	**3,190,915**
Loans and advances to customers	22 (a)	–	115,125,427	–	–	**115,125,427**
Investment securities	23	–	–	67,911,422	–	**67,911,422**
Other assets - uncleared effects	24	–	136,288	–	–	**136,288**
Amounts due from group companies	25	–	17,857,239	–	–	**17,857,239**
Total assets		**6,398,063**	**150,550,450**	**67,911,422**	**–**	**224,859,935**
Liabilities						
Deposits from banks	32	–	–	–	4,293,413	**4,293,413**
Deposits from customers	33	–	–	–	172,036,056	**172,036,056**
Derivative financial instruments	20	458,669	–	–	–	**458,669**
Other liabilities - bills payable	34	–	–	–	771,676	**771,676**
Amounts due to group companies	25	–	–	–	10,355,723	**10,355,723**
Total liabilities		**458,669**	**–**	**–**	**187,456,868**	**187,915,537**

31 December 2014:

	Note	Fair value through profit or loss KShs '000	Loans and receivables KShs '000	Available-for-sale KShs '000	Financial liabilities at amortised cost KShs '000	Total carrying amount KShs '000
Assets						
Cash and balances with Central Bank of Kenya	18	–	15,383,312	–	–	**15,383,312**
Government and other securities held for trading	19	3,076,047	–	–	–	**3,076,047**
Derivative financial instruments	20	100,242	–	–	–	**100,242**
Loans and advances to banks	21	–	4,802,936	–	–	**4,802,936**
Loans and advances to customers	22 (a)	–	122,749,233	–	–	**122,749,233**
Investment securities	23	–	–	55,679,006	–	**55,679,006**
Other assets - uncleared effects	24	–	91,992	–	–	**91,992**
Amounts due from group companies	25	–	11,004,805	–	–	**11,004,805**
Total assets		**3,176,289**	**154,032,278**	**55,679,006**	**–**	**212,887,573**
Liabilities						
Deposits from banks	32	–	–	–	9,106,326	**9,106,326**
Deposits from customers	33	–	–	–	154,066,931	**154,066,931**
Derivative financial instruments	20	378,374	–	–	–	**378,374**
Other liabilities - bills payable	34	–	–	–	320,878	**320,878**
Amounts due to group companies	25	–	–	–	13,359,389	**13,359,389**
Total liabilities		**378,374**	**–**	**–**	**176,853,524**	**177,231,898**

7 FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy

The valuation hierarchy, and types of instruments measured at fair value classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities.	Valuation models with directly or indirectly market observable inputs.	Valuation models using significant non-market observable inputs.
Types of financial assets:	Actively traded government and other agency securities. Listed derivative instruments. Listed equities.	Corporate and other government bonds and loans. Over-the-counter (OTC) derivatives.	Corporate bonds in illiquid markets. Highly structured OTC derivatives with unobservable parameters.
Types of financial liabilities:	Listed derivative instruments.	Over-the-counter (OTC) derivatives.	Highly structured OTC derivatives with unobservable parameters.

(i) *Financial instruments measured at fair value*

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2015 and 2014:

Group 31 December 2015:	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Assets					
Government and other securities held for trading	19	–	5,709,525	–	**5,709,525**
Derivative financial instruments	20	–	688,538	–	**688,538**
Investment securities	23	–	67,911,422	–	**67,911,422**
Total assets		**–**	**74,309,485**	**–**	**74,309,485**
Derivative financial instruments	20	–	458,669	–	**458,669**
Total liabilities		**–**	**458,669**	**–**	**458,669**
31 December 2014:					
Assets					
Government and other securities held for trading	19	–	3,076,047	–	**3,076,047**
Derivative financial instruments	20	–	100,242	–	**100,242**
Investment securities	23	–	55,679,006	–	**55,679,006**
Total assets		**–**	**58,855,295**	**–**	**58,855,295**
Derivative financial instruments	20	–	378,374	–	**378,374**
Total liabilities		**–**	**378,374**	**–**	**378,374**

During the current year, there were no intra level transfers and there was sufficient information available to measure the fair value of financial instruments based on observable market inputs.

7 FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy (Continued)

(ii) *Financial instruments measured at amortised cost*

The valuation hierarchy, and the main types of instruments classified into each level within the hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities.	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable.	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).
Types of financial assets:	Actively traded corporate or other debt.	Cash and balances at central banks. Loans to banks and other financial institutions.	Loans and advances to customers. Illiquid or highly structured corporate bonds. Illiquid loans and advances.
Types of financial liabilities:	Quoted debt securities in issue. Quoted subordinated liabilities.	Unquoted debt securities in issue. Unquoted subordinated liabilities. Time Deposits by customers. Deposits by banks.	Illiquid or highly structured debt securities in issue.

The table below summarises the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value at 31 December 2015 and 2014:

Group

31 December 2015:

	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total fair values KShs '000	Total carrying amount KShs '000
Assets						
Cash and balances with Central Bank of Kenya	18	–	14,240,581	–	**14,240,581**	**14,240,581**
Loans and advances to banks	21	–	3,190,915	–	**3,190,915**	**3,190,915**
Loans and advances to customers	22 (a)	–	–	115,125,427	**115,125,427**	**115,125,427**
Other assets - uncleared effects	24	–	–	136,288	**136,288**	**136,288**
Amounts due from group companies	7 (a)	–	–	17,857,239	**17,857,239**	**17,857,239**
Total assets		**–**	**17,431,496**	**133,118,954**	**150,550,450**	**150,550,450**
Deposits from banks	32	–	4,293,413	–	**4,293,413**	**4,293,413**
Deposits from customers	33	–	39,496,968	132,539,088	**172,036,056**	**172,036,056**
Other liabilities - bills payable	34	–	–	771,676	**771,676**	**771,676**
Amounts due to group companies	7 (a)	–	6,132,000	4,223,723	**10,355,723**	**10,355,723**
Total liabilities		**–**	**49,922,381**	**137,534,487**	**187,456,868**	**187,456,868**

31 December 2014:

Assets						
Cash and balances with Central Bank of Kenya	18	–	15,383,312	–	**15,383,312**	**15,383,312**
Loans and advances to banks	21	–	4,802,936	–	**4,802,936**	**4,802,936**
Loans and advances to customers	22 (a)	–	–	122,749,233	**122,749,233**	**122,749,233**
Other assets - uncleared effects	24	–	–	91,992	**91,992**	**91,992**
Amounts due from group companies	7 (a)	–	–	10,968,281	**10,968,281**	**10,968,281**
Total assets		**–**	**20,186,248**	**133,809,506**	**153,995,754**	**153,995,754**
Deposits from banks	32	–	9,106,326	–	**9,106,326**	**9,106,326**
Deposits from customers	33	–	34,092,034	119,974,897	**154,066,931**	**154,066,931**
Other liabilities - bills payable	34	–	–	320,878	**320,878**	**320,878**
Amounts due to group companies	7 (a)	–	5,427,000	7,901,590	**13,328,590**	**13,328,590**
Total liabilities		**–**	**48,625,360**	**128,197,365**	**176,822,725**	**176,822,725**

7 FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy (Continued)

The following sets out the Group's basis of establishing fair value of the financial instruments:

Derivative financial instruments and government securities held for trading
Derivative financial instruments and government securities held for trading are measured at fair value as set out in Notes 3(h) and 3(f) respectively.

Cash and balances with Central Bank of Kenya
Cash and bank balances are measured at amortised cost. The fair value of cash and bank balances with the Central Bank of Kenya is their carrying amounts.

Loans and advances to banks
The fair value of floating rate placements and overnight deposits approximates their carrying amounts due to their short term nature. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers
Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances re-price within 12 months and hence the fair value approximates their carrying amounts.

Investment securities
Investment securities with observable market prices, including debt and equity securities are fair valued using that information. Debt securities that do not have observable market data are fair valued by either discounting cash flows using prevailing market rates for debts with a similar credit risk and remaining maturity or using quoted market prices for securities with similar credit risk maturity and yield characteristics.

Deposits from banks and customers
The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

A substantial proportion of deposits mature within 6 months and hence the fair value approximates their carrying amounts.

	2015 KShs '000	2014 KShs '000
8 INTEREST INCOME		
Loans and advances to customers	14,747,282	15,497,412
Loans and advances to banks	941,706	451,211
Investment securities:		
– Available-for-sale	6,752,191	5,617,406
Accrued on impaired assets (Discount unwind)	167,423	176,388
	22,608,602	21,742,417
9 INTEREST EXPENSE		
Deposits from customers	4,228,559	3,257,075
Deposits from banks	778,581	1,184,906
	5,007,140	4,441,981

	2015 KShs '000	2014 KShs '000
10 NET FEE AND COMMISSION INCOME		
Fee and commission income		
Commissions	3,235,012	3,125,438
Service fees	1,300,251	1,455,108
	4,535,263	4,580,546
Fee and commission expense		
Inter-bank transaction fees and other fees	385,851	710,043
11 NET TRADING INCOME		
Gains less losses on foreign currency transactions	2,331,776	2,017,484
Interest income on held-for-trading securities	268,483	377,609
Other trading (losses)/profits	(2,205)	232,969
	2,598,054	2,628,062
12 OTHER OPERATING INCOME		
Gains less losses on disposal of available-for-sale securities:		
– Government treasury bonds and bills	27,836	234,396
Rental income	11,870	13,644
Profit on sale of non-current asset held for sale	240,443	1,535,240
Profit on sale of property and equipment	241	1,456
Loss on sale of property and equipment	–	(306)
Profit on sale of motor vehicle	3,300	–
Other	181,736	3,585
	465,426	1,788,015
13 OPERATING EXPENSES		
Staff costs		
Salaries and wages	4,466,250	4,258,991
Contributions to defined contribution plan	515,809	481,803
Increase in retirement benefit obligations (Note 36)	34,544	37,900
Redundancy charge	332,465	148,285
Employee share-based payments expenses	42,146	79,170
Other staff costs	827,068	761,110
	6,218,282	5,767,259

	2015 No.	2014 No.
The number of employees at the year end was:		
Management	1,248	1,204
Unionisable	391	433
Other	242	411
	1,881	2,048

	2015 KShs '000	2014 KShs '000
Premises and equipment costs		
Rental of premises	383,720	380,672
Rental of computers and equipment	129,887	120,725
Electricity	126,618	155,527
Other premises and equipment costs	149,946	149,248
	790,171	806,172
Depreciation and amortisation		
Buildings on leasehold land	15,565	14,461
Fixtures, fittings and equipment	458,623	479,690
Motor vehicles	6,792	3,300
Depreciation on property and equipment (Note 29)	480,980	497,451
Amortisation of intangible assets (Note 30)	485,506	490,885
Amortisation of prepaid operating lease rentals (Note 31)	2,928	2,929
	969,414	991,265

14 PROFIT BEFORE TAXATION

	2015 KShs '000	2014 KShs '000
Profit before taxation is arrived at after charging:		
Depreciation on property and equipment (Note 29)	480,980	497,451
Amortisation of intangible assets (Note 30)	485,506	490,885
Amortisation of prepaid operating lease rentals (Note 31)	2,928	2,929
Directors' emoluments - Fees	11,051	11,879
- Other	121,516	154,275
Auditors' remuneration	14,786	14,766
Loss on sale of property and equipment	–	306
And after crediting:		
Profit on sale of non-current asset held for sale	240,443	1,535,240
Profit on sale of property and equipment	241	1,456
Profit on sale of motor vehicle	3,300	–

15 INCOME TAX EXPENSE

Current year's tax at 30%	3,132,805	3,943,047
Compensating tax	416	–
Prior year over provision	(3,976)	(2,282)
	3,129,245	3,940,765
Deferred tax credit - Note 35 (a,c)	(311,740)	(30,964)
Income tax expense	2,817,505	3,909,801

The tax on the Group's profit differs from the theoretical amount using the basic tax rate as follows:

	2015 KShs '000	2014 KShs '000
Accounting profit before taxation	9,159,932	14,345,981
Computed tax using the applicable corporation tax rate at 30%	2,747,980	4,303,794
Tax exempt income	(75,707)	(470,438)
Non-deductible expenses	148,792	78,727
Prior year over provision	(3,976)	(2,282)
Compensating tax	416	–
Income tax expense	2,817,505	3,909,801

16 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2015 and 2014 is based on the profit attributable to ordinary shareholders of KShs 6,174,427,000 (2014 – KShs 10,268,180,000) and a weighted average number of ordinary shares outstanding during the year of 309,159,514 (2014 – 309,159,514).

Profit attributable to ordinary shareholders:

	2015 KShs '000	2014 KShs '000
Net profit for the year	6,342,427	10,436,180
Dividends on non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares	(168,000)	(168,000)
	6,174,427	10,268,180
Basic earnings per share (KShs)	19.97	33.21

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding during the year to assume conversion of dilutive potential ordinary shares. There were no potentially dilutive shares outstanding at 31 December 2015 and 2014.

17 DIVIDEND PER SHARE

Group and Company	2015 KShs '000	2014 KShs '000
Dividends – Ordinary shares	3,864,494	3,864,494
Dividends – Preference shares	84,690	84,690
	3,949,184	3,949,184

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting.

At the Annual General Meeting to be held on 26 May 2016, a final dividend in respect of the year ended 31 December 2015 of KShs 12.50 (2014 – KShs 12.50) for every ordinary share of KShs 5.00 is to be proposed. One interim dividend of KShs 4.50 (2014 – 4.50) for every ordinary share of KShs 5.00 was declared on 25 November 2015 and paid on 11 January 2016. This will bring the total dividend for the year to KShs 17.00 (2014 – KShs 17.00).

At the Annual General Meeting to be held on 26 May 2016, a final dividend in respect of the year ended 31 December 2015 of KShs 84,690,411 (2014 – KShs 84,690,411) for the preference shares is to be proposed. An interim dividend of KShs 83,309,589 (2014 – 83,309,589) was declared on 25 November 2015 and paid on 11 January 2016. This will bring the total dividend for the year to KShs 168,000,000 (2014 – KShs 168,000,000).

Dividends on the preference shares are paid at the rate of 6% per annum on the issue price of KShs 50.00 per share.

Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

18 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

Group and Company	2015 KShs '000	2014 KShs '000
Cash on hand	3,791,248	3,742,061
Balances with Central Bank of Kenya:		
-Restricted balances (Cash Reserve Ratio)	9,434,663	8,330,371
-Unrestricted balances	1,014,670	3,310,880
	14,240,581	15,383,312

The Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the Central Bank of Kenya requirements. At 31 December 2015, the Cash Reserve Ratio requirement was 5.25% (2014 – 5.25%) of all deposits. These funds are available for use by the Bank in its day-to-day operations in a limited way provided that on any given day this balance does not fall below the 3.00% requirement and provided that the overall average in the month is at least 5.25%.

19 GOVERNMENT AND OTHER SECURITIES HELD FOR TRADING

Group and Company

The change in the carrying amount of government and other securities held for trading is as shown below:

	2015			2014		
	Treasury bonds KShs '000	Treasury bills KShs '000	Total KShs '000	Treasury bonds KShs '000	Treasury bills KShs '000	Total KShs '000
At 1 January	3,076,047	–	3,076,047	2,478,935	–	2,478,935
Additions	12,146,850	–	12,146,850	13,109,500	458,750	13,568,250
Disposals and maturities	(9,459,200)	–	(9,459,200)	(12,301,550)	(458,750)	(12,760,300)
Changes in fair value	(54,172)	–	(54,172)	(210,838)	–	(210,838)
At 31 December	**5,709,525**	**–**	**5,709,525**	**3,076,047**	**–**	**3,076,047**

The weighted average effective interest rate on government and other securities held for trading at 31 December 2015 was 12.95% (2014 – 10.79%).

20 DERIVATIVE FINANCIAL INSTRUMENTS

The types of derivatives used by the Group are set out below.

These tables analyse the notional principal amounts and the positive (assets) and negative (liabilities) fair values of the Group's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

Group and Company

	2015			2014		
	Notional principal amounts KShs '000	Assets KShs '000	Liabilities KShs '000	Notional principal amounts KShs '000	Assets KShs '000	Liabilities KShs '000
Interest rate and cross currency derivative contracts	6,910,716	688,538	458,669	10,388,379	100,242	378,374
Forward exchange contracts	40,881,844	–	–	35,447,925	–	–
	47,792,560	**688,538**	**458,669**	45,836,304	100,242	378,374

21 LOANS AND ADVANCES TO BANKS

Group and Company	**2015 KShs '000**	2014 KShs '000
Loans and advances to local banks	**2,979,530**	4,641,765
Loans and advances to foreign banks	**211,385**	161,171
	3,190,915	4,802,936

The weighted average effective interest rate on loans and advances to banks at 31 December 2015 was 6.18% (2014 – 6.42%).

22 LOANS AND ADVANCES TO CUSTOMERS

Group and Company	**2015 KShs '000**	2014 KShs '000
(a) Classification		
Overdrafts	**12,988,056**	19,888,266
Loans	**109,780,582**	106,038,256
Bills discounted	**641,182**	348,752
Gross loans and advances	**123,409,820**	126,275,274
Less: Impairment losses on loans and advances	**(8,284,393)**	(3,526,041)
Net loans and advances	**115,125,427**	122,749,233
Repayable on demand	**24,235,690**	22,888,318
Less than 3 months	**15,993,554**	24,970,103
3 months to 1 year	**5,006,931**	6,631,120
1 to 5 years	**36,620,044**	42,728,843
5 to 10 years	**25,712,991**	17,366,460
Over 10 years	**15,840,610**	11,690,430
Gross loans and advances	**123,409,820**	126,275,274

22 LOANS AND ADVANCES TO CUSTOMERS (Continued)

Group and Company

(b) Impairment losses on loans and advances

2015:	Specific impairment losses	Portfolio impairment provision	Total
	KShs '000	KShs '000	KShs '000
At 1 January 2015	2,688,144	837,897	3,526,041
Provisions recognised during the year	4,875,135	188,863	5,063,998
Amounts written off/(releases) during the year	(66,749)	(71,474)	(138,223)
Amounts released to interest income	(167,423)	–	(167,423)
At 31 December 2015	**7,329,107**	**955,286**	**8,284,393**
Provisions recognised during the year	4,875,135	188,863	5,063,998
Amounts recovered during the year	(400,877)	(71,474)	(472,351)
Net charge to profit or loss	**4,474,258**	**117,389**	**4,591,647**
2014:			
At 1 January 2014	1,200,491	1,093,466	2,293,957
Provisions recognised during the year	1,579,000	286,446	1,865,446
Amounts written off/(released) during the year	85,041	(542,015)	(456,974)
Amounts released to interest income	(176,388)	–	(176,388)
At 31 December 2014	**2,688,144**	**837,897**	**3,526,041**
Provisions recognised during the year	1,579,000	286,446	1,865,446
Amounts recovered during the year	(276,001)	(542,015)	(818,016)
Net charge/(credit) to profit or loss	**1,302,999**	**(255,569)**	**1,047,430**

The weighted average effective interest rate on loans and advances to customers at 31 December 2015 was 13.15% (2014 – 12.95%).

23 INVESTMENT SECURITIES

Group and Company	**2015**	2014
	KShs '000	KShs '000
Available-for-sale		
Treasury bonds	**28,757,866**	26,823,562
Treasury bills	**38,658,677**	28,316,251
	67,416,543	55,139,813
Money market bonds	**486,797**	531,195
Equity shares	**8,082**	7,998
Total investment securities	**67,911,422**	55,679,006

23 INVESTMENT SECURITIES (Continued)

The change in the carrying amount of investment securities is as shown below:

	2015				2014			
	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Equity shares KShs '000	Total KShs '000	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Equity shares KShs '000	Total KShs '000
At 1 January	55,139,813	531,195	7,998	55,679,006	53,163,593	537,708	8,637	53,709,938
Additions	53,261,751	–	–	53,261,751	55,653,277	–	–	55,653,277
Disposals and maturities	(44,301,052)	(22,220)	–	(44,323,272)	(55,524,031)	(22,235)	–	(55,546,266)
Changes in fair value	(367,415)	(22,178)	84	(389,509)	(288,890)	15,722	(639)	(273,807)
Amortisation of discounts and premiums	3,683,446	–	–	3,683,446	2,135,864	–	–	2,135,864
At 31 December	**67,416,543**	**486,797**	**8,082**	**67,911,422**	**55,139,813**	**531,195**	**7,998**	**55,679,006**

The weighted average effective interest rate on treasury bonds at 31 December 2015 was 12.00% (2014 – 11.33%) and on treasury bills was 12.81% (2014 – 9.32%).

There were no treasury bills under repurchase agreements outstanding at 31 December 2015 and 2014.

The weighted average effective interest rate on money market bonds at 31 December 2015 was 8.58% (2014 – 8.75%).

At 31 December 2015, unamortised premiums on investment securities amounted to KShs 115,914,000 (2014 – KShs 80,498,000) and unamortised discounts amounted to KShs 2,396,414,000 (2014 – KShs 1,700,043,000).

24 OTHER ASSETS

Group and Company

	2015		2014	
	Group KShs '000	**Company KShs '000**	Group KShs '000	Company KShs '000
Un-cleared effects	**136,288**	**136,288**	91,992	93,277
Prepayments	**555,412**	**555,412**	427,662	427,662
Other receivables	**1,953,663**	**1,949,239**	2,003,897	2,003,897
	2,645,363	**2,640,939**	2,523,551	2,524,836

25 GROUP COMPANY BALANCES

Group and Company

Amounts due from group companies	**17,857,239**	**17,890,777**	11,004,805	11,004,805
Amounts due to group companies	**10,355,723**	**10,355,723**	13,359,389	13,359,389

Included in amounts due to group companies is an amount of US$ 60 million (KShs 6,140,721,000) (2014 – US$ 60 million (KShs 5,434,246,000)) relating to subordinated debt made up of three amounts of US$ 20 million each advanced on 18 August 2011, 30 December 2013 and 22 December 2014, respectively. The subordinated debts are unsecured 10 year loan capital issued by Standard Chartered PLC to enhance the Company's capital base (Tier 2 capital) but can be recalled after five years and 1 day at the option of both parties. The subordinated debts are unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle the subordinated debts in certain circumstances as set out in the contractual agreement. The interest on the subordinated debts is referenced to the LIBOR. The weighted average effective interest rate at 31 December 2015 on the subordinated debts was 3.00% (2014 – 2.76%).

The weighted average effective interest rate at 31 December 2015 on amounts due from group companies was 0.35% (2014 – 0.31%) and on amounts due to group companies was 1.51% (2014 – 1.41%).

26 INVESTMENT IN SUBSIDIARIES

The following subsidiaries are wholly owned by the Company:

Company	Status	2015 KShs '000	2014 KShs '000
Standard Chartered Investment Services Limited	Active	20,000	20,000
Standard Chartered Insurance Agency Limited	Active	1,000	–
Standard Chartered Financial Services Limited	Dormant	120,241	120,241
Standard Chartered Kenya Nominees Limited	Dormant	2	2
		141,243	140,243

Standard Chartered Financial Services Limited owns 100% of Standard Chartered Management Services Limited which was liquidated during the year.

The investment in the above undertakings is measured at cost less accumulated impairment losses. All the subsidiaries are incorporated in Kenya.

At the end of January 2015, the Board approved the setting up and operationalisation of the bancassurance business to be carried out by Standard Chartered Insurance Agency Limited, a fully owned subsidiary of the Company. Standard Chartered Insurance Agency Limited is licensed by the Insurance Regulatory Authority to transact business as an insurance agent in Kenya.

27 BUSINESS COMBINATION

On 31 October 2010, Standard Chartered Bank Kenya Limited (SCBKL) acquired the custody business of Barclays Bank of Kenya Limited (BBKL). The business was acquired for KShs 1,883,365,000 representing the value of revenue streams of the local customer relationships acquired. No other assets and liabilities other than customer relationships were acquired.

In addition to the purchase price paid by SCBKL, Standard Chartered PLC paid GBP £14,133,404 (KShs 1,823,673,000) in respect of the value that BBKL's custody clients provide across the Pan-African network covered by the Barclays Bank PLC's Africa custody business as a whole. This represents the value deemed to arise as a result of revenue streams from regional and global customer relationships acquired. In effect, the purchase price paid for by Standard Chartered PLC is deemed to be a capital contribution.

The revenue streams from all the customer relationships, both local and global, will therefore accrue to SCBKL and as such the value of the intangible is significantly higher than the purchase price paid locally.

The fair value of the customer relationships acquired were determined by discounting the future cash flows expected to be generated over the useful life determined to be 11 years.

The calculation of the acquired intangible asset was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results, and budgets and forecasts approved by management up to 2014. Management forecasts projected revenue growth rates greater than long-term GDP growth rates but which are in line with past performance as adjusted to reflect current economic climate and any known business cycles. Cash flow projections were extrapolated forward for another 7 years up to 2021 using steady long-term estimated GDP growth rates.

- The cash flows were discounted using a pre-tax discount rate of 17.50% which reflected current market rates appropriate for this business.

The key assumptions described above may change as economic and market conditions change. Management believes that reasonable possible change in any of the key assumptions on which the fair value of the intangible has been based will not cause the carrying amounts to exceed their recoverable amount.

27 BUSINESS COMBINATION (Continued)

The intangible asset arising from the acquisition is as follows:

Group and Company

	KShs '000
Purchase consideration:	
Cash paid by SCBKL	1,883,365
Cash paid by Standard Chartered PLC (Capital contribution)	1,823,673
Total purchase consideration	**3,707,038**
Less: Fair value of identifiable assets acquired	–
Intangible assets acquired: Customer relationships	3,707,038
Deferred tax liability recognised on business combination	(1,112,111)
Total identifiable net assets	**2,594,927**
Goodwill on acquisition (Note 30)	**1,112,111**

Contribution from the acquisition:	2015 KShs '000	2014 KShs '000
Operating income	2,163,958	1,941,688
Profit before taxation	1,590,083	1,342,309

The goodwill is attributable mainly to the customer relationships acquired, value of the acquired work force and leveraged synergies within the Pan-African businesses and geographies. None of the goodwill recognised is expected to be deductible for income tax purposes.

The goodwill is wholly attributable to the Securities Services department of the Company.

28 NON-CURRENT ASSET HELD FOR SALE

Group and Company

	2015			2014		
	Property and equipment KShs '000	Prepaid operating lease rentals KShs '000	Total KShs '000	Property and equipment KShs '000	Prepaid operating lease rentals KShs '000	Total KShs '000
At 1 January	270,299	238	270,537	137,031	106	137,137
Transfer from property and equipment (Note 29)	–	–	–	177,121	–	177,121
Transfer from prepaid operating lease rentals (Note 31)	–	–	–	–	132	132
Transfer to property and equipment (Note 29)	(25,867)	–	(25,867)	–	–	–
Transfer to prepaid operating lease rentals (Note 31)	–	(4)	(4)	–	–	–
Disposals	(103,894)	(128)	(104,022)	(43,853)	–	(43,853)
At 31 December	**140,538**	**106**	**140,644**	**270,299**	**238**	**270,537**

The outstanding balance of the non-current asset held for sale relates to two properties which are being sold.

The properties have been placed on the market with the sale expected within the 2016 financial year.

The asset of KShs 140,644,000 (2014 – KShs 270,537,000) is classified under the unallocated portion of the operating segment report in Note 6.

29 PROPERTY AND EQUIPMENT

Group and Company

2015:	Freehold land and buildings KShs '000	Buildings on leasehold land KShs '000	Fixtures, fittings and equipment KShs '000	Motor vehicles KShs '000	Capital work in progress KShs '000	**Total KShs '000**
Cost or valuation:						
At 1 January 2015	245,000	1,006,727	5,113,201	23,988	113,336	**6,502,252**
Transfer from/(to) non-current asset held for sale (Note 28)	–	25,867	–	–	–	**25,867**
Additions	–	–	144,211	11,810	24,360	**180,381**
Transfers	–	–	47,433	–	(47,433)	**–**
Disposals	–	–	(25,269)	(6,970)	–	**(32,239)**
At 31 December 2015	**245,000**	**1,032,594**	**5,279,576**	**28,828**	**90,263**	**6,676,261**
Depreciation:						
At 1 January 2015	575	3,253	3,082,918	16,374	–	**3,103,120**
Charge for the year	2,300	13,265	458,623	6,792	–	**480,980**
Disposals	–	–	(25,269)	(6,970)	–	**(32,239)**
At 31 December 2015	**2,875**	**16,518**	**3,516,272**	**16,196**	**–**	**3,551,861**
Carrying amount:						
At 31 December 2015	**242,125**	**1,016,076**	**1,763,304**	**12,632**	**90,263**	**3,124,400**

Group and Company

2014:						
Cost or valuation:						
At 1 January 2014	150,000	1,080,186	5,023,980	15,422	120,874	**6,390,462**
Transfer from/(to) non-current asset held for sale (Note 28)	–	(184,500)	–	–	–	**(184,500)**
Additions	–	–	103,378	8,566	62,790	**174,734**
Transfers	–	17,180	53,148	–	(70,328)	**–**
Disposals	–	–	(67,305)	–	–	**(67,305)**
Revaluation surplus	95,000	93,861	–	–	–	**188,861**
At 31 December 2014	**245,000**	**1,006,727**	**5,113,201**	**23,988**	**113,336**	**6,502,252**
Depreciation:						
At 1 January 2014	3,600	30,889	2,670,988	13,074	–	**2,718,551**
Transfers	–	1,722	(1,722)	–	–	**–**
Transfer from/(to) non-current asset held for sale (Note 28)	–	(7,379)	–	–	–	**(7,379)**
Charge for the year	1,775	12,686	479,690	3,300	–	**497,451**
Depreciation written back on revaluation	(4,800)	(34,665)	–	–	–	**(39,465)**
Disposals	–	–	(66,038)	–	–	**(66,038)**
At 31 December 2014	**575**	**3,253**	**3,082,918**	**16,374**	**–**	**3,103,120**
Carrying amount:						
At 31 December 2014	**244,425**	**1,003,474**	**2,030,283**	**7,614**	**113,336**	**3,399,132**

29 PROPERTY AND EQUIPMENT (Continued)

Included in property and equipment at 31 December 2015 are assets with a gross value of KShs 1,788,043,776 (2014 – KShs 1,678,419,285) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been KShs 736,543,624 (2014 – KShs 653,839,986).

There were no idle assets as at 31 December 2015 and 2014.

Capital work in progress relates to the branch expansion and refurbishment that was ongoing during the year.

Freehold land and buildings were revalued on an open market basis by Lloyd Masika Limited, a firm of professional valuers as at 30 September 2014. The book values of the properties were adjusted to the revaluations, and the resulting surplus, net of deferred tax, was credited to the revaluation reserve.

Freehold land and buildings are revalued every 3 years.

In the opinion of the directors, the fair value of the freehold land and buildings has not changed significantly since the revaluation at 30 September 2014.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year ended 31 December 2015 (2014 - Nil).

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2015 KShs '000	2014 KShs '000
Cost	648,032	644,407
Accumulated depreciation	(86,991)	(73,394)
Carrying amount	**561,041**	571,013

30 INTANGIBLE ASSETS

Group and Company

	2015				2014			
	Acquired intangible asset KShs '000	Goodwill KShs '000	Capitalised software KShs '000	**Total KShs '000**	Acquired intangible asset KShs '000	Goodwill KShs '000	Capitalised software KShs '000	**Total KShs '000**
Cost:								
At 1 January	3,707,038	1,112,111	334,382	**5,153,531**	3,707,038	1,112,111	256,367	**5,075,516**
Additions	–	–	211,364	**211,364**	–	–	78,015	**78,015**
At 31 December	**3,707,038**	**1,112,111**	**545,746**	**5,364,895**	**3,707,038**	**1,112,111**	**334,382**	**5,153,531**
Amortisation:								
At 1 January	1,715,165	–	258,233	**1,973,398**	1,265,221	–	217,292	**1,482,513**
Charge for the year	402,077	–	83,429	**485,506**	449,944	–	40,941	**490,885**
At 31 December	**2,117,242**	**–**	**341,662**	**2,458,904**	**1,715,165**	**–**	**258,233**	**1,973,398**
Carrying amount:								
At 31 December	**1,589,796**	**1,112,111**	**204,084**	**2,905,991**	**1,991,873**	**1,112,111**	**76,149**	**3,180,133**

As at 31 December 2015, assets with a gross value of KShs 238,889,921 (2014 – KShs 196,892,659) are fully amortised but still in use. The notional amortisation charge for the year on these assets would have been KShs 80,288,007 (2014 – KShs 65,994,149).

There were no idle assets as at 31 December 2015 and 2014.

The goodwill is wholly attributable to the Securities Services department of the Company. The directors having assessed the goodwill are of the opinion that the goodwill was not impaired at the reporting date (2014 - Nil).

The recoverable amounts were calculated based on their value in use. Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2015 was determined similarly as in 2014. The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and budgets and forecasts approved by management up to 2014. Management forecasts projected revenue growth rates greater than long-term Gross Domestic Product (GDP) growth rates but which are in line with past performance as adjusted to reflect current economic climate and any known business cycles. Cash flow projections were extrapolated forward for another 7 years up to 2021 using steady long-term estimated GDP growth rates.

- The cash flows were discounted using a pre-tax discount rate of 17.50% which reflected current market rates appropriate for this business.

The key assumptions described above may change as economic and market conditions change. Management believes that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of the unit to decline below the carrying amount.

31 PREPAID OPERATING LEASE RENTALS

Group and Company

	2015 KShs '000	2014 KShs '000
Cost:		
At 1 January	277,574	278,289
Transfer from/(to) non-current asset held for sale (Note 28)	4	(715)
At 31 December	277,578	277,574
Amortisation:		
At 1 January	27,742	25,396
Transfer from/(to) non-current asset held for sale (Note 28)	–	(583)
Charge for the year	2,928	2,929
At 31 December	30,670	27,742
Carrying amount at 31 December	246,908	249,832

32 DEPOSITS FROM BANKS

Group and Company

Balances due from local banks	2,885,506	5,543,747
Balances due from foreign banks	1,407,907	3,562,579
	4,293,413	9,106,326

The weighted average effective interest rate on deposits from banks at 31 December 2015 was 4.39% (2014 – 1.99%).

33 DEPOSITS FROM CUSTOMERS

Group and Company

	2015 KShs '000	2014 KShs '000
From government and parastatals		
Payable on demand	5,506,626	7,991,321
Payable within 3 months or less	–	–
Payable after 3 months	17	100
	5,506,643	7,991,421
From private sector and individuals		
Payable on demand	130,134,413	117,967,707
Payable within 3 months or less	14,872,669	12,468,435
Payable after 3 months	21,522,331	15,639,368
	172,036,056	154,066,931
Current and demand accounts	117,043,537	104,378,174
Savings deposits	12,679,588	13,047,685
Time deposits	39,496,968	34,092,034
Other	2,815,963	2,549,038
	172,036,056	154,066,931

The weighted average effective interest rate on interest bearing deposits from customers at 31 December 2015 was 6.40% (2014 – 4.44%).

34 OTHER LIABILITIES

	2015		2014	
	Group	**Company**	Group	Company
	KShs '000	**KShs '000**	KShs '000	KShs '000
Bills payable	**771,676**	**771,676**	320,878	320,878
Dividends payable	**1,858,179**	**1,858,179**	409,683	409,683
Other trade payables	**2,861,657**	**2,849,590**	3,727,732	3,700,590
	5,491,512	**5,479,445**	4,458,293	4,431,151

35 DEFERRED TAX LIABILITY

The net deferred tax liability at 31 December 2015 and 2014 are attributable to the following:

(a) Group

2015	At 1 January 2015 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2015 KShs '000
Liability				
Tax losses in subsidiaries	1,355	5,889	–	7,244
Property and equipment	(147,131)	(126)	–	(147,257)
Acquired intangible asset	(597,563)	120,623	–	(476,940)
Portfolio impairment provision	251,369	35,217	–	286,586
Revaluation surplus	(195,286)	29,107	–	(166,179)
Fair value reserve	(46,401)	–	120,473	74,072
Accrued interest	193,104	69,217	–	262,321
Other provisions	75,506	51,950	–	127,456
Retirement benefit obligations	1,410	(137)	2,388	3,661
	(463,637)	**311,740**	**122,861**	**(29,036)**

(b) Company

2015				
Liability				
Property and equipment	(147,133)	(124)	–	(147,257)
Acquired intangible asset	(597,563)	120,623	–	(476,940)
Portfolio impairment provision	251,369	35,217	–	286,586
Revaluation surplus	(195,286)	29,107	–	(166,179)
Fair value reserve	(46,401)	–	120,473	74,072
Accrued interest	193,104	69,217	–	262,321
Other provisions	70,119	56,294	–	126,413
Retirement benefit obligations	1,410	(137)	2,388	3,661
	(470,381)	**310,197**	**122,861**	**(37,323)**

35 DEFERRED TAX LIABILITY (Continued)

(c) Group

2014	At 1 January 2014 KShs '000	Profit or loss current year KShs '000	Other comprehensive income KShs '000	At 31 December 2014 KShs '000
Liability				
Tax losses in subsidiaries	1,601	(246)	–	1,355
Property and equipment	(56,574)	(90,557)	–	(147,131)
Acquired intangible asset	(732,545)	134,982	–	(597,563)
Portfolio impairment provision	328,040	(76,671)	–	251,369
Revaluation surplus	(175,802)	42,761	(62,245)	(195,286)
Fair value reserve	(66,839)	–	20,438	(46,401)
Accrued interest	218,902	(25,798)	–	193,104
Other provisions	29,883	45,623	–	75,506
Retirement benefit obligations	2,700	870	(2,160)	1,410
	(450,634)	**30,964**	**(43,967)**	**(463,637)**

(d) Company

2014				
Liability				
Property and equipment	(56,576)	(90,557)	–	(147,133)
Acquired intangible asset	(732,545)	134,982	–	(597,563)
Portfolio impairment provision	328,040	(76,671)	–	251,369
Revaluation surplus	(175,802)	42,761	(62,245)	(195,286)
Fair value reserve	(66,839)	–	20,438	(46,401)
Accrued interest	218,902	(25,798)	–	193,104
Other provisions	27,933	42,186	–	70,119
Retirement benefit obligations	2,700	870	(2,160)	1,410
	(454,187)	**27,773**	**(43,967)**	**(470,381)**

The tax losses expire from 2020 under the current tax legislation.

36 RETIREMENT BENEFIT OBLIGATIONS

Group and Company

Standard Chartered Bank Kenya Limited operates a defined contribution scheme for all full time permanent employees and a defined benefit scheme for pensioners and deferred pensioners who existed as at 31 December 1998.

The benefits provided by the defined benefit scheme are based on a formula taking into account years of service and remuneration levels, whilst the benefits provided by the defined contribution scheme are determined by accumulated contributions and returns on investments.

Both schemes are governed by the *Retirement Benefits Act, 1997.* This requires that an actuarial valuation be carried out at least every 3 years for the defined benefit scheme. The most recent actuarial valuation of the defined benefit scheme was carried out as at 31 December 2012 by an independent qualified actuary.

However, the Company's actuary did a review for the year ended 31 December 2015. The review was consistent with previous valuations performed using the projected unit credit method.

36 RETIREMENT BENEFIT OBLIGATIONS (Continued)

The amount included in the statement of financial position arising from the Group's obligation in respect of the defined benefit scheme is as follows:

Group and Company	2015 KShs '000	2014 KShs '000
Fair value of plan assets	729,544	831,203
Present value of funded obligations	(741,748)	(790,000)
Retirement benefit obligations before asset ceiling	(12,204)	41,203
Irrecoverable surplus	–	(41,203)
Additional liability for minimum funding requirements	–	(4,700)
Retirement benefit obligations as at 31 December	(12,204)	(4,700)
Plan assets consist of the following:		
Government bonds	363,943	366,920
Corporate bonds	119,137	156,332
Other	246,464	307,951
	729,544	831,203
Movement in plan assets		
Fair value of plan assets at 1 January	831,203	835,956
Expected return on plan assets	104,500	112,400
Benefits paid by the plan	(124,393)	(123,480)
Employer contributions	35,000	35,000
Recognised actuarial losses	(112,322)	(21,473)
Administrative expenses paid	(4,444)	(7,200)
Fair value of plan assets at 31 December	729,544	831,203
Movement in the present value of the retirement benefit obligations		
Retirement benefit obligations at 1 January	790,000	735,800
Interest cost	100,000	99,300
Past service cost	30,000	30,000
Benefits paid by the plan	(124,393)	(123,480)
Recognised actuarial gains/(losses)	(53,859)	48,380
Retirement benefit obligations at 31 December	741,748	790,000
The net charge recognised in profit or loss is as follows:		
Interest cost	(100,000)	(99,300)
Expected return on plan assets	104,500	112,400
Past service cost	(30,000)	(30,000)
Movement in irrecoverable surplus	(4,500)	(13,100)
Movement in liability for minimum funding requirements	(100)	(700)
Administration expenses	(4,444)	(7,200)
Total charge included in staff costs	(34,544)	(37,900)
The principal actuarial assumptions at the reporting date are as follows:		
	2015 % pa	2014 % pa
Discount rate	15	13
Expected return on plan assets	15	13
Future pension increases	–	–

The overall expected long-term rate of return on the assets is 15% (2014 – 13%) based on the portfolio as a whole and not on the sum of the returns on the individual assets.

36 RETIREMENT BENEFIT OBLIGATIONS (Continued)

The movement in the retirement benefit obligations in the statement of financial position is as follows:

	2015 KShs '000	2014 KShs '000
At 1 January	(4,700)	(9,000)
Employer contributions	35,000	35,000
Charge to profit or loss	(34,544)	(37,900)
Recognised in other comprehensive income	(7,960)	7,200
At 31 December	(12,204)	(4,700)

Historical information	2015 KShs '000	2014 KShs '000	2013 KShs '000	2012 KShs '000	2011 KShs '000
Fair value of plan assets	729,544	831,203	835,956	771,036	808,158
Present value of funded obligations	(741,748)	(790,000)	(735,800)	(759,000)	(611,000)
Retirement benefit obligations before asset ceiling	(12,204)	41,203	100,156	12,036	197,158
Irrecoverable surplus	–	(41,203)	(100,156)	(12,036)	(197,158)
Additional liability for minimum funding requirements	–	(4,700)	(9,000)	(25,000)	(49,000)
Retirement benefit obligations	(12,204)	(4,700)	(9,000)	(25,000)	(49,000)

Sensitivity analysis

The effect of certain changes to the actuarial assumptions on the defined benefit obligation is shown below:

	2015		2014	
	Increase KShs '000	Decrease KShs '000	Increase KShs '000	Decrease KShs '000
Discount rate (-1% movement)	34,000	–	41,000	–
Discount rate (+1% movement)	–	31,200	–	37,000
Future mortality (longevity of member aged 60 increasing by 1 year)	25,100	–	28,000	–

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

37 SHARE CAPITAL AND RESERVES

Company

(a) Share capital

Authorised

The authorised share capital of the Company at 31 December 2015 was KShs 1,905 million (2014 – KShs 1,905 million) made up of 325 million (2014 – 325 million) ordinary shares of KShs 5.00 each and 56 million (2014 – 56 million) non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares of KShs 5.00 each.

All shares rank equally with regard to the Company's residual assets, except that preference shareholders have priority over ordinary shareholders but participate only to the extent of the face value of the shares plus any accrued dividends.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company, subject to any rights or restrictions for the time being attached to any class or classes of shares. Holders of preference shares receive non-cumulative discretionary dividends on the preference shares at the rate of 6% per annum on the issue price of KShs 50.00 per share. Preference shares do not carry the right to vote.

Authorised

	Number of ordinary shares ('000)	Number of preference shares ('000)	Authorised share capital KShs'000
2015:			
At 1 January 2015 and 31 December 2015	**325,000**	**56,000**	**1,905,000**
2014:			
At 1 January 2014 and 31 December 2014	325,000	56,000	1,905,000

Issued and fully paid

2015:			
At 1 January 2015 and 31 December 2015	**309,159**	**56,000**	**1,825,798**
2014:			
At 1 January 2014 and 31 December 2014	309,159	56,000	1,825,798

The shareholders at 31 December 2015 that had large holdings were as follows:

Name	Number of shares ('000)	%
1. Standard Chartered Holdings (Africa) BV	228,432	73.89
2. Kabarak Limited	3,178	1.03
3. Standard Chartered Nominees – RESD A/C KE 11450	1,541	0.50
4. Standard Chartered Nominees – A/C 9230	1,467	0.47
5. Kenya Commercial Bank Nominees Limited – A/C 915B	1,334	0.43
6. Standard Chartered Africa Limited	1,307	0.42
7. Old Mutual Life Assurance Company Limited	1,214	0.39
8. Standard Chartered Nominees – RESD A/C KE11401	1,060	0.34
9. Kenya Commercial Bank Nomiees Limited – A/C 915A	1,041	0.34
10. Standard Chartered Nominees – A/C 9187	714	0.23
11. Others	67,871	21.96
	309,159	**100.00**

37 SHARE CAPITAL AND RESERVES (Continued)

Company

(a) Share capital (Continued)

Issued and fully paid (Continued)

The distribution of shareholders as at 31 December 2015 and 2014 was as follows:

	2015			2014		
Share range	Number of shareholders	Shares held ('000)	%	Number of shareholders	Shares held ('000)	%
Less than 500	9,559	1,800	0.58	9,487	1,797	0.58
501 to 5,000	19,912	25,091	8.12	20,221	25,429	8.22
5,001 to 10,000	333	2,369	0.77	343	2,414	0.78
10,001 to 100,000	499	15,477	5.01	495	15,394	4.98
100,001 to 1,000,000	101	23,849	7.71	105	25,340	8.20
Above 1,000,000	9	240,573	77.81	6	238,785	77.24
Total	**30,413**	**309,159**	**100.00**	**30,657**	**309,159**	**100.00**

(b) Share premium

These reserves arose when the shares of the company were issued at a price higher than the nominal (par) value. These will be applied towards capital in future.

	2015 KShs '000	2014 KShs '000
At 1 January and 31 December	7,792,427	7,792,427

(c) Capital contribution reserve

Capital contribution reserve comprises capital contributions provided to the Group by shareholders that are not intended by either party to be repaid and includes capital contribution on the acquisition of the custody business and increases in equity arising from share-based payment awards granted to the Group's employees.

(d) Revaluation reserve

Revaluation reserve is from the periodic revaluation of freehold land and buildings. The carrying amounts of these assets are adjusted to the revaluations. Revaluation surpluses are not distributable.

(e) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised.

(f) Statutory credit risk reserve

Where impairment losses required by legislation or regulations exceed those calculated under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory credit risk reserve and accounted for as an appropriation of retained profits. These reserves are not distributable.

38 NOTES TO THE STATEMENT OF CASH FLOWS

Group

(a) Reconciliation of profit before taxation to net cash from operating activities

	Notes	2015 KShs '000	2014 KShs '000
Profit before taxation		9,159,932	14,345,981
Depreciation	29	480,980	497,451
Amortisation of intangible assets	30	485,506	490,885
Profit on sale of non-current asset held for sale		(240,443)	(1,535,240)
Loss on sale of property and equipment		–	306
Profit on sale of property and equipment		(241)	(1,456)
Profit on sale of motor vehicle		(3,300)	–
Amortisation of prepaid operating lease rentals	31	2,928	2,929
Retirement benefit obligations	36	34,544	37,900
Reversal of revaluation deficit from prior years		–	1,458
(Increase)/decrease in operating assets			
Balances with Central Bank of Kenya			
– Cash Reserve Ratio		(1,104,292)	(232,369)
Government and other securities held for trading		(2,633,478)	(597,112)
Derivative financial instruments		(588,296)	140,860
Loans and advances to banks		500,000	84,096
Loans and advances to customers		7,623,806	6,922,771
Investment securities		(3,780,945)	(1,045,933)
Amounts due from group companies		2,722,500	(132,000)
Other assets		(121,812)	(602,292)
Increase/(decrease) in operating liabilities			
Deposits from customers		17,969,125	(653,080)
Derivative financial instruments		80,295	14,583
Amounts due to group companies		802,016	2,109,761
Defined benefit obligations		(35,000)	(35,000)
Other liabilities		(441,308)	(562,755)
Cash from operating activities		30,912,517	19,251,744
Income taxes paid		(3,193,632)	(3,914,076)
Net cash from operating activities		27,718,885	15,337,668

(b) Analysis of the balance of cash and cash equivalents

Cash on hand	3,791,248	3,742,061
Unrestricted cash balances with Central Bank of Kenya	1,014,670	3,310,880
Treasury bills	9,844,306	991,260
Loans and advances to banks	2,440,915	3,552,936
Deposits from banks	(4,293,413)	(9,106,326)
Amounts due from group companies	17,857,239	8,282,305
Amounts due to group companies	(1,157,723)	(4,963,405)
	29,497,242	5,809,711

39 CONTINGENCIES AND COMMITMENTS

Group and company

In the ordinary course of business, the Group conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

	2015 KShs '000	2014 KShs '000
Guarantees and standby letters of credit	24,502,534	33,656,427
Letters of credit, acceptances and other documentary credits	9,884,460	15,015,915
	34,386,994	48,672,342

Nature of contingent liabilities

Guarantees are generally written by a bank to support performance by a customer to third parties. The Company will only be required to meet these obligations in the event of the customer's default.

Letters of credit commit the Company to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Company expects most acceptances to be presented and reimbursement by the customer is almost immediate.

40 OTHER CONTINGENT LIABILITIES

In the ordinary course of business, the Company and its subsidiaries are defendants in various litigations and claims. Although there can be no assurances, the directors believe, based on the information currently available and legal advice, that the claims can be successfully defended and therefore no provision has been made in the financial statements.

Three of the significant claims are described below:

One of the Company's subsidiaries, Standard Chartered Financial Services Limited, is a litigant in a case in which a former customer was awarded damages amounting to KShs 251 million by the Court of Appeal of the Republic of Kenya.

The directors, having considered the award and obtained appropriate legal advice, challenged the ruling of the Court of Appeal of the Republic of Kenya at the Common Market for East and Southern Africa (COMESA) Court of Justice.

At an initial hearing, the COMESA court ruled, among others, that no execution should be levied in respect of the award granted by the Court of Appeal of the Republic of Kenya, pending the final determination of the case.

In June 2006, management withdrew the case from the COMESA Court of Justice and filed for review at the Court of Appeal of the Republic of Kenya with an expectation that the Court of Appeal of the Republic of Kenya will review its earlier decision.

A second claim relates to a pensions matter where the Company was sued by 629 ex-employees. The claimants filed a lawsuit against the trustees of the pension fund and the Company for a claim of KShs14.6 billion on grounds that the lump sum benefits paid to them, over 10 years ago following their retrenchment, were miscalculated. The claimants are yet to provide the particulars of the claim. The pension payments were computed based on professional advice.

The third is a claim by a former customer and is made up of two cases. The customer had defaulted on his borrowings and the Company attempted to realise the securities held for the borrowings. The customer sued the Company in this matter alleging that the Company did not account for some KShs 55 million deposited in the customer's account. The effect of this case was to stop the Company from realising the securities. The customer reported the matter to the Anti-Banking Fraud Unit and recently applied to the High Court in a Constitutional Petition to compel the Director of Public Prosecutions to prosecute the Company. The application was declined but the customer has filed Notice of Appeal.

In addition, the Company has some on-going matters with the Kenya Revenue Authority. As at 31 December 2015, the directors have not made provisions for tax demand letters amounting to KShs 96 million (2014 - KShs 96 million) as they are of the view, based on advice received, that these amounts are not payable.

41 ASSETS PLEDGED AS SECURITY

As at 31 December 2015, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities.

42 FIDUCIARY ACTIVITIES

The Group holds asset security documents on behalf of customers with a value of KShs 734,811,129,735 (2014 – KShs 748,176,007,302). Most of these securities are held by the Security Services department of the Company. The assets held comprise of deposits, government securities, debentures, title deeds, quoted and unquoted shares.

43 RELATED PARTY TRANSACTIONS

Group and company

In the ordinary course of business, transactions are entered into with Standard Chartered PLC, the ultimate holding company and other companies related to Standard Chartered Bank Kenya Limited through common shareholding or common directorships. The relevant balances are shown in Note 25. These transactions are at arm's length. The parent company also provides technical support and consultancy services which are charged at market rates.

The Company has also entered into transactions at arm's length with Standard Chartered Kenya Pension Fund (SCKPF) and Standard Chartered Staff Retirement Benefits Scheme 2006 (SCKSRBS 2006). At 31 December 2015, deposits from SCKPF and SCKSRBS 2006 amounted to KShs 152,487,034 (2014 – KShs 117,502,998).

At 31 December 2015, balances relating to deposits from directors, employees and associates amounted to KShs 637,677,820 (2014 – KShs 477,049,578).

The interest expense paid during the year on deposits from directors, employees and associates amounted to KShs 8,668,637 (2014 – KShs 11,350,623).

Included in loans and advances to customers are the following amounts:

Loans and advances to directors, employees and their associates	**2015 KShs '000**	2014 KShs '000
At start of the year	**5,221,993**	4,255,221
Amounts advanced during the year	**3,390,057**	3,279,862
Amounts repaid during the year	**(2,665,517)**	(2,313,090)
At end of the year	**5,946,533**	5,221,993
Loans and advances to directors or companies controlled by directors or their families	**28,252**	33,787
Loans and advances to employees	**5,918,281**	5,188,206
	5,946,533	5,221,993

The interest income earned during the year on loans and advances to directors, employees and associates amounted to KShs 504,075,544 (2014 – KShs 379,231,830).

The above loans and advances were given on commercial terms and conditions.

None of the loans and advances above are impaired at 31 December 2015 (2014 – Nil).

Key management compensation	**2015 KShs '000**	2014 KShs '000
Salaries and other employee benefits	**379,604**	397,945

Salaries and other employee benefits include those relating to the executive directors which are disclosed in Note 14.

During the year, the Group changed its organisation structure as a result of which the number of key management staff decreased to 13 (2014: 15).

44 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

Group and Company

The Group's commitments under non cancellable operating leases expiring:

	2015		2014	
	Premises KShs '000	**Equipment KShs '000**	Premises KShs '000	Equipment KShs '000
Within 1 year	**364,571**	**199,540**	387,857	213,422
After 1 year but less than 5 years	**766,808**	**185,094**	911,421	199,845
After 5 years	**24,046**	**–**	81,636	–
	1,155,425	**384,634**	1,380,914	413,267

The Group leases a number of premises and equipment under operating leases. Premises leases typically run for a period of 6 years, with an option to renew the lease after the lease expiry date. Lease payments are typically increased every year to reflect market rentals.

45 HOLDING COMPANY

The ultimate holding company of Standard Chartered Bank Kenya Limited is Standard Chartered PLC, which is a limited liability company incorporated and domiciled in Great Britain.

Notice and Agenda of the Annual General Meeting

to the Members of Standard Chartered Bank Kenya Limited

Notice is hereby given that the thirtieth Annual General Meeting of the Company will be held at the Safari Park Hotel, Thika Road, Nairobi on Thursday, 26 May 2016 at 11:30 a.m. to conduct the following business of the Company:

ORDINARY BUSINESS

1. To receive and consider the Report of the Directors and Statement of Accounts and the Statement of the Financial Position of the Company for the year ended 31 December 2015 with the Auditors' report thereon.

2. To confirm the payment of one interim dividend of Kshs. 4.50 paid in January 2016 and to approve the payment of a final dividend of KShs 12.50 for each ordinary share of KShs 5.00 on the issued share capital of the Company in respect of the year ended 31 December 2015.

   To approve the payment of a final dividend of KShs 84,690,411 on the non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares. An interim dividend of KShs 83,309,589 was declared on 25 November 2015 and paid on 11 January 2016.

   The dividends are to be payable to shareholders registered on the Company's Register at the close of business on 22 April 2016 and will be paid on or after 27 May 2016.

3. To elect the following Directors:
   (i) Mr. Kaushik Shah, a director retiring by rotation who being eligible offers himself for re-election in accordance with Article 96 (1) of the Memorandum and Articles of Association;

   Casual directors:
   (i) Mr. Tejinder Pal Singh, a casual director retiring by rotation, who being eligible offers himself for election in accordance with Article 98 (1) of the Memorandum and Articles of Association; and

   (ii) Dr. Catherine Adeya-Weya, a casual director retiring by rotation, who being eligible offers herself for election in accordance with Article 98 (1) of the Memorandum and Articles of Association;

   (iii) Mr David Idoru, a casual director retiring by rotation, who being eligible offers himself for election in accordance with Article 98 (1) of the Memorandum and Articles of Association.

   Subject to Regulatory Approval:
   (i) Mr. Ian Anderson Bryden, a casual director who being eligible, offers himself for election, subject to regulatory approval;

   (ii) Mr. Angarai Ganesh Dorairajan, a casual director who being eligible, offers himself for election, subject to regulatory approval.

   Board Audit Committee:
   In accordance with provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee:
   (i) Mr. Les Baillie;

   (ii) Mr. Kaushik Shah; and

   (iii) Mr. Patrick Obath.

4. To authorise the Board to fix the Directors' remuneration.

5. To note the continuance in office of KPMG Kenya as auditors in accordance with Section 159(2) of the Companies Act, Cap 486 of the Laws of Kenya, and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

6. THAT subject to regulatory approval, to consider and if thought fit pass the following resolutions:-

   6.1 Ordinary Resolution
   THAT the Authorised Ordinary Share Capital of the Company be increased from KShs. 1,905,000,000 (Ordinary KShs. 1,625,000,000 and Preference Kshs. 280,000,000) to KShs. 1,997,552,860 (Ordinary KShs. 1,717,552,860 and Preference Kshs. 280,000,000) by the creation of 18,510,572 new Ordinary Shares of KShs. 5.00 each.

6.2 Special Resolutions

a) THAT the Authorised Share Capital of the Company be increased by the creation of 18,510,572 Ordinary Shares of Kshs. 5.00 each.

b) THAT the sum of KShs. 171,755,290 being part of the amount now standing to the credit of the Company's revenue reserve account be capitalised AND THAT the same be applied in making payment in full for 34,351,058 Ordinary Shares of KShs. 5.00 each in the capital of the Company; and

THAT the new Shares be distributed as fully paid among the persons who are registered as holders of the Ordinary Shares in the capital of the Company at the close of business on 22 April 2016 at the rate of one fully paid new Ordinary Share for every nine Ordinary Shares of KShs. 5.00 each held by the members respectively; and

THAT the new fully paid Shares rank pari passu in all respects with the existing Ordinary Shares save and except that the new Shares shall not rank for dividend for the year ended 31 December 2015.

c) THAT no Shareholder in the Company be allotted any fractional part of a Share but instead that all new Shares representing fractions be allotted to Trustees, appointed from among the Directors of the Company, for the purposes of consolidating, selling the same and disposing the proceeds by donation to a charity of their choice; and

THAT save as aforesaid, the Directors of the Company be and are hereby authorised to attend to and complete all matters required to give effect to this and the foregoing Resolutions.

d) THAT in accordance with Section 22 of the Companies Act No. 17 of 2015 the Articles of Association of the Company be amended in the manner following:

By substituting the following Article (5):
"(5) The Share Capital of the Company is Kenya Shillings One Thousand Nine Hundred and Five Million (KShs. 1,905,000,000) divided into Three Hundred and Twenty Five Million (325,000,000) Ordinary Shares of Kenya Shillings Five (KShs 5.00) each and Fifty Six (56,000,000) million Preference Shares of Kenya Shillings Five (KShs 5.00) each."

The New Article to be amended to read as follows:
"(5) The Share Capital of the Company is Kenya Shillings One Billion, Nine Hundred and Ninety Seven Million, Five Hundred and Fifty Two Thousand, Eight Hundred and Sixty (KShs 1,997,552,860) divided into Three Hundred and Forty Three Million, Five Hundred and Ten Thousand, Five Hundred and Seventy Two (343,510,572) Ordinary Shares of Kenya Shillings Five (KShs 5.00) each and Fifty Six Million Preference Shares (56,000,000) of Kenya Shillings Five (KShs 5.00) each."

7. To transact any other business of the Annual General Meeting for which notice has been given.

BY ORDER OF THE BOARD

N.N. Oginde
Company Secretary
Standard Chartered Bank Kenya Limited
P.O. Box 30003 - 00100 Nairobi GPO
21 April 2016

Note: This notice can be viewed from the Company's website, www.sc.com/ke/investor-relations

Every member of the Company is entitled to attend and vote at the above Meeting or in the alternative to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. A form of proxy can be downloaded from the Company's website, www.sc.com/ke/investor-relations and should be delivered or sent to the Share Registrar, Custody and Registrar Services (CRS), 6th Floor Bruce House, Standard Street, P.O. Box 8484 - 00100, Nairobi, so as to be received not later than 24 May 2016 at 3:00 p.m.

Notes

Form of Proxy

I/we: _____

being a member/members of Standard Chartered Bank Kenya Limited hereby appoint:

of (address): _____

or failing him/her: _____

of (address): _____

and failing him/her the Chairman of the meeting to be my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday 26 May 2016 at the Safari Park Hotel, Thika Road, Nairobi at 11.30 a.m. or an adjournment thereof.

As my witness my/our hands this day of _____2016

Signed: _____

Note:

1. **The completed Form of Proxy by members must be lodged at the Share Registrar's Office, 6th Floor, Bruce House, Standard Street, Nairobi or to be posted so as to reach Custody & Registrars Services (CRS), P. O. Box 8484 00100 Nairobi to reach them not later than 3.00p.m. on Tuesday 24 May 2016, failing which it shall be invalid.**
2. **In case of a Corporation, the proxy must be under its common seal.**

Mimi/sisi: _____

kama mwanahisa/wanahisa wa Standard Chartered Bank Kenya Limited nateua/tunateua

wa (anwani): _____

Na akikosa yeye: _____

wa (anwani): _____

Na akikosa yeye Mwenyekiti wa Mkutano kama Mwakilishi wangu/wetu wa kunipigia/kutupigia kura na kwa niaba yangu/yetu kwenye mkutano wa kila mwaka wa kampuni utakaofanywa Alhamisi saa tano na nusu za asubuhi Mei 26 2016, Safari Park Hotel, Thika Road, Nairobi na wakati wa ahirisho lolote litakalotokea baadaye.

Kama shahidi siku hii: _____2016

Sahihi: _____

Muhimu:

1. **Hii fomu ya uwakilishi lazima irudishwe kwa afisi ya Custody & Registrars Services (CRS), orofa la sita, Bruce House, Standard Street, ama itumwe kwa njia ya posta kwa kutumia anwani ya Custody & Registrars Services (CRS), SLP 8484 00100, Nairobi kufika kabla ya Jumanne saa tisa alasiri Mei 24 2016. Mwanahisa/wanahisa watakaowasilisha fomu hii baada ya saa tisa, hataruhusiwa/hawataruhusiwa kushiriki katika uchaguzi wowote.**
2. **Ikiwa mteuzi ni Shirika, fomu hii ya uwakilishi lazima ifungwe kwa lakiri.**

Notes

Standard Chartered